

---

**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, 2008**

**Commission File Number 001-31316**

**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: Douglas Cooper  
(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.

Title of each class	Name of each exchange on which registered
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	991,923,631
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

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 ☐

---

## **CONTROLS AND PROCEDURES**

Management's responsibility for financial information contained in the Annual Report is described on page 104 of Exhibit 3, 2008 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 2008 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**

Our 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, 2008, 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 U.S. Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities, and has concluded that the Bank's disclosure controls and procedures are effective.

### **Internal controls over financial reporting**

Management of the Bank is responsible for establishing and maintaining adequate internal controls 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 GAAP, 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 controls 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 controls 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 of October 31, 2008.

### **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, 2008.

---

## **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 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 committee and board of directors in the absence of such designation.

## **CODE OF ETHICS**

The Bank has adopted a code of ethics, entitled "Scotiabank 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 U.S. Securities and Exchange Commission (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 2008.

## **PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The disclosure provided in Table 59 "Fees paid to the shareholders' auditors" on page 92 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, 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, audits of employee benefit plans, other associated entities and mutual funds, and special attest services not required by statute or regulation, but requested by a party to a specific transaction. In 2008 these services included specified procedures with respect to a potential international acquisition, training on accounting and financial reporting, review of controls and procedures related to regulatory reporting of a subsidiary as requested by the local regulator, and consultation on the potential impact of new accounting standards.

- 
- Tax services outside of the audit scope represent primarily specified procedures to assist in the preparation of personal tax returns of individuals not in financial reporting or accounting roles, 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 providing industry salary surveys.

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 2008 and 2007 consolidated financial statements were attributable to work performed by the full-time permanent employees of the Bank's independent auditors, KPMG LLP. 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 and were subsequently approved without changes upon annual review January 21, 2008.

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

The disclosure provided under "Off-Balance Sheet Arrangements" on pages 42 to 46 and "Variable Interest Entities" on pages 80 and 81 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 1 on pages 111 to 115, note 4(b) on pages 118 and 119, note 6 on pages 120 and 121, note 13 on pages 123 to 125, note 14 on pages 125 and 126, note 23 on pages 137 to 139, note 24 on pages 139 to 147, note 25 on page 148, and note 27 on pages 149 to 153 of Exhibit 3, 2008 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 74 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 10 on page 122, note 19 on pages 132 to 134, note 23 on pages 137 to 139, note 24 on pages 139 to 147, and note 25 on page 148 of Exhibit 3, 2008 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: Hon. Michael J.L. Kirby (Chair), Ronald A. Brenneman, Thomas C. O'Neill, Elizabeth Parr-Johnston, Alexis E. Rovzar, Indira V. Samarasekera, Paul D. Sobey, and Barbara S. Thomas. Ex-officio member: Arthur R.A. Scace.

---

### **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 Vanneste

Name: Luc A. Vanneste

Title: Executive Vice-President and Chief  
Financial Officer

Date: December 8, 2008

---

## EXHIBIT INDEX

Exhibit No.	Description
1.	Annual Information Form dated December 8, 2008
2.	Management's Discussion and Analysis (pages 21 through 101 of the 2008 Annual Report)
3.	2008 Consolidated Financial Statements (pages 103 through 157 of the 2008 Annual Report)
4.	Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm (page 102 of the 2008 Annual Report)
5.	Corporate Governance
6.	Auditors' Consent
7.	Comments by Auditors for U.S. Readers on Canada — U.S. Reporting Differences
8.	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.
9.	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.

<DOCUMENT>  
<TYPE> EX-99.1  
<FILENAME> o42611exv99w1.htm  
<DESCRIPTION> EX 1 ANNUAL INFORMATION FORM  
<TEXT>





# Scotiabank

**The Bank of Nova Scotia**

**ANNUAL  
INFORMATION  
FORM**

**DECEMBER 8, 2008**

## TABLE OF CONTENTS

Section	Page Reference Annual Information Form
Distribution Notice	1
Financial Data	1
Forward-looking Statements	1
Corporate Structure	2
Name, Address and Place of Incorporation	2
Intercorporate Relationships	2
General Description of the Bank's Business	2
Three-Year History	2
Description of the Bank's Business	3
General Summary	3
Social and Environmental Policies	5
Risk Factors	5
Dividends	6
Description of the Bank's Capital Structure	7
Common Shares	7
Preferred Shares — General	7
Certain Provisions of the Preferred Shares, Series 12	8
Certain Provisions of the Preferred Shares, Series 13	9
Certain Provisions of the Preferred Shares, Series 14	10
Certain Provisions of the Preferred Shares, Series 15	11
Certain Provisions of the Preferred Shares, Series 16	12
Certain Provisions of the Preferred Shares, Series 17	14
Certain Provisions of the Preferred Shares, Series 18	15
Certain Provisions of the Preferred Shares, Series 19	16
Certain Provisions of the Preferred Shares, Series 20	17
Certain Provisions of the Preferred Shares, Series 21	19
Certain Provisions of the Preferred Shares, Series 22	20
Certain Provisions of the Preferred Shares, Series 23	21
Constraints on Ownership of the Bank's Shares	23
Ratings of Securities	23
Market for Securities of the Bank	24
Trading Price and Volume of the Bank's Common and Preferred Shares on the Toronto Stock Exchange	24
Prior Sales	26
Directors and Executive Officers of the Bank	26
Directors and Board Committees of the Bank	26
Executive Officers of the Bank	29
Cease Trade Orders, Bankruptcies, Penalties or Sanctions	30
Shareholdings of Management	30
Legal Proceedings and Regulatory Actions	31
Interest of Management and Others in Material Transactions	31
Transfer Agent and Registrar	31
Conflicts of Interest	31
Experts	31
The Bank's Audit and Conduct Review Committee	31
Additional Information	33
Schedule "A" — List of Principal Subsidiaries	34
Schedule "B" — Audit and Conduct Review Committee Charter	35

## **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 8, 2008 (the "AIF"), are disclosed in the Management's Discussion and Analysis for the year ended October 31, 2008 (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, 2008. 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; 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; 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 62 to 76 inclusive, of the Bank's 2008 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.

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.

## **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 (U.S.) 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: BNS Capital Trust, Scotia Capital Inc., Scotia Securities Inc., Scotiabank Capital Trust and Scotiabank Subordinated Notes Trust, which are incorporated or established and existing under the laws of the Province of Ontario and 3045175 Nova Scotia Company which is incorporated and existing under the laws of Nova Scotia.

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

## **GENERAL DESCRIPTION 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 approximately 66,000 employees, the Bank and its affiliates offer a broad range of products and services, including retail, commercial, corporate and investment banking to more than 12.5 million customers in some 50 countries around the world.

In the fiscal year ended October 31, 2008, the Bank’s net income available to common shareholders was \$3,033 million, a decrease of \$961 million or 24% lower than 2007. Earnings per share (on a diluted basis) were \$3.05, down 24% from \$4.01 in 2007. Return on equity was 17%, compared to 22% in 2007. In fiscal 2008, the Bank’s actual dividend payout ratio was 63%, up from 43% in 2007.

In the fiscal year ended October 31, 2007, the Bank’s net income available to common shareholders was a record \$3,994 million, an increase of \$445 million or 13% higher than 2006. Earnings per share (on a diluted basis) were \$4.01, up 13% from \$3.55 in 2006. Return on equity was 22%, in line with 2006. In fiscal 2007, the Bank’s actual dividend payout ratio was 43%, up from 42% in 2006 and within the Bank’s target payout range of 35% to 45%.

In the fiscal year ended October 31, 2006, the Bank’s net income available to common shareholders was a record \$3,549 million, an increase of \$365 million or 12% higher than 2005. Earnings per share (on a diluted basis) were \$3.55, up 13% from \$3.15 in 2005. This strong performance boosted return on equity to 22.1%, its highest level in recent history. On a year-over-year basis, dividends rose by 14% to \$1.50 per share, and have risen at a compound annual rate of 16.3% over the past 10 years. In fiscal 2006, the dividend payout ratio was 42%, up from 41% from 2005, and within the Bank’s target payout range of 35% to 45%.

## DESCRIPTION OF THE BANK'S BUSINESS

### General Summary

The Bank has three major business lines: Canadian Banking, International Banking and Scotia Capital. Each of these three business lines is discussed below and additional information on each of the Bank's business lines is available in the 2008 MD&A, on pages 51 to 61 inclusive, and those pages are herein incorporated by reference.

#### *Canadian Banking*

Canadian Banking provides a full range of banking and investing services to more than 7 million customers across Canada, through a network of 1,016 branches and 2,943 automated banking machines ("ABMs"), as well as telephone and Internet banking. Canadian Banking includes three main businesses. Retail and Small Business Banking provides mortgages, loans, credit cards, investments, insurance and day-to-day banking products to individuals and small businesses. Wealth Management provides a full range of products and services, including: retail brokerage (discretionary, non-discretionary and self-directed); investment management advice; mutual funds and savings products; and financial, trust and estate planning, as well as private client services for affluent clients. Commercial Banking delivers a full product suite to medium and large businesses, including banking, cash management, lending and leasing.

#### *International Banking*

International Banking encompasses the Bank's retail and commercial banking operations in more than 40 countries outside Canada — an international presence unmatched by our domestic competitors. More than 47,000 employees, including subsidiaries and affiliates, provide a full range of financial services to over 5 million customers through a network of 1,850 branches and offices, 3,300 ABMs, telephone and Internet banking, in-store banking kiosks, and specialized sales forces. International Banking operates in the following geographic regions: the Caribbean and Central America, Mexico, Latin America and Asia.

#### *Scotia Capital*

Scotia Capital is the wholesale banking arm of the Scotiabank Group. We offer 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. We also provide select products and services to niche markets in Europe and Asia. Scotia Capital provides corporate lending, equity underwriting and mergers and acquisitions advisory services as well as capital markets products and services such as fixed income, derivatives, prime brokerage, retail investment products, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious metals.

#### *Competition*

The Canadian banking system consists of six major Canadian banks, each of which maintains an extensive branch network, augmented with ABMs, telephone and Internet banking facilities. In addition to the six major Canadian banks, the banking system includes 14 smaller domestic banks, 53 foreign banks and over 1,000 credit unions and caisses populaires. In total, the Canadian financial services industry includes more than 3,500 financing 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. A good measure of the competition in the sector is the narrow margins in Canada. Canada has had, on average since 1996, the lowest interest rate spreads of all countries monitored by the World Economic Forum. 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 and credit system. Another indicator of competition is new entrants into the market and there have been eight domestic and eight foreign bank entrants that have received charters from the federal bank regulator since 2003.

### *Supervision and Regulation in Canada*

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 (1) 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 (2) 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 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 of Finance 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: (i) the aggregate of shares of any class of voting shares beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person is more than 20% of that class of voting shares; or (ii) the aggregate of shares of any class of non-voting shares beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with 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.

The Superintendent is responsible to the Minister of Finance 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 of Finance. 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. The activities of the Bank's trust subsidiaries and insurance subsidiaries are also regulated in Canada 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.

### *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 and state securities regulators regulate its broker-dealer subsidiary.

The Bank is a “financial holding company” under the BHCA. This status allows a broad range of financial and 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 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 engage in with other offices and affiliates of the Bank.

U.S. banking organizations have been subject to an enhanced compliance atmosphere since passage in October 2001 of the USA Patriot Act in response to the events of September 11, 2001. The Act increases many requirements previously imposed on U.S. banks and foreign banks with U.S. operations to take certain steps to prevent, detect and report individuals and entities involved in international money laundering and the financing of terrorism. It also creates new crimes and penalties and expands the extraterritorial jurisdiction of the U.S. Failure of a financial institution to comply with these requirements could have serious legal and reputational consequences for the institution.

As a result of the turmoil in the United States and international banking and financial industries, the Bank may face increased regulation in the United States. 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 the Bank’s ability to pursue business opportunities.

### *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, the National Commission for the Retirement Savings System, and the National Commission for the Protection of the Users of Financial Services.

### *Other Jurisdictions*

Outside of the United States and Mexico, 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.

## **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 62 to 76 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 2008 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 BNS Capital Trust and Scotiabank Capital 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 2008, the Bank's actual dividend payout ratio was 63% up from 43% in 2007. The Bank has declared and paid the following dividends on its common shares and preferred shares over the past three completed financial years:

Year	Common Shares	Series 12	Series 13	Series 14 <sup>1</sup>	Series 15 <sup>2</sup>	Series 16 <sup>3</sup>	Series 17 <sup>4</sup>	Series 18 <sup>5</sup>	Series 20 <sup>6</sup>
2008	\$1.92	\$1.3125	\$1.20	\$ 1.125	\$ 1.125	\$1.376325	\$1.03753	\$0.744	\$0.4803
2007	\$1.74	\$1.3125	\$1.20	\$0.84606	\$0.62954				
2006	\$1.50	\$1.3125	\$1.20						

- <sup>1</sup> 13.8 million Preferred Shares, Series 14 commenced trading on January 24, 2007. The initial dividend was paid on April 26, 2007 and was \$0.28356 per share. Thereafter, quarterly dividends were at a rate of \$0.28125 per share.
- <sup>2</sup> 13.8 million Preferred Shares, Series 15 commenced trading on April 5, 2007. The initial dividend was paid on July 27, 2007 and was \$0.34829 per share. Thereafter, quarterly dividends were at a rate of \$0.28125 per share.
- <sup>3</sup> 13.8 million Preferred Shares, Series 16 were issued and commenced trading on October 12, 2007. The initial dividend was paid on January 29, 2008 and was \$0.39195 per share. Thereafter, quarterly dividends were at a rate of \$0.328125 per share.
- <sup>4</sup> 9.2 million Preferred Shares, Series 17 were issued and commenced trading on January 31, 2008. The initial dividend was paid on April 28, 2008 and was \$0.33753 per share. Thereafter, quarterly dividends were at a rate of \$0.35000 per share.
- <sup>5</sup> 12 million Preferred Shares, Series 18 were issued and commenced trading on March 25, 2008, and pursuant to the exercise of the underwriters' over-allotment option, an additional 1.8 million Preferred Shares, Series 18 were issued and commenced trading on March 27, 2008. The initial dividend was paid on July 29, 2008 and was \$0.4315 per share. Thereafter, quarterly dividends were at a rate of \$0.3125 per share.



- <sup>6</sup> 14 million Preferred Shares, Series 20 were issued and commenced trading on June 10, 2008. The initial dividend was paid on July 29, 2008 and was \$0.1678 per share. Thereafter, quarterly dividends were at a rate of \$0.3125 per share.
- <sup>7</sup> 12 million Preferred Shares, Series 22 were issued and commenced trading on September 9, 2008. The initial dividend, if declared, will be payable on January 28, 2009 and will be \$0.4829 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 991,923,631 common shares were issued and outstanding as at October 31, 2008.

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, 2008, 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") and 12,000,000 non-cumulative preferred shares, series 22 ("Preferred Shares, Series 22"), 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") and non-cumulative preferred shares, series 23 ("Preferred Shares, Series 23") were authorized. None of the Preferred Shares, Series 19, Preferred Shares, Series 21 and Preferred Shares, Series 23 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, and the Preferred Shares, Series 22.

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, Series 12**

The holders of the Preferred Shares, Series 12 will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, on the third last business day of each of January, April, July and October in each year. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on the Preferred Shares, Series 12 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 12 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The Preferred Shares, Series 12 will not be redeemable prior to October 29, 2013. On and after October 29, 2013, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and subject to certain conditions being met, the Bank may redeem at any time all or, from time to time, any part of the outstanding Preferred Shares, Series 12, 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 of \$25.00, together with declared and unpaid dividends to the date fixed for redemption.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 12 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, Series 12. The holders of the Preferred Shares, Series 12 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 12 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares, Series 12 given as specified below:

- (a) pay any dividends on the common shares or any other shares ranking junior to the Preferred Shares, Series 12 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 12); or
- (b) redeem, purchase or otherwise retire any common shares or any other shares ranking junior to the Preferred Shares, Series 12 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 12); or
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 12; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, Series 12, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 12;

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, Series 12 then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares, Series 12 and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative preferred shares (including the Preferred Shares, Series 12) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares.

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.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 12 without the authorization of the holders of the Preferred Shares, Series 12.

The holders of the Preferred Shares, Series 12 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 the Preferred Shares, Series 12 in any quarter. In that event, the holders of the shares will

be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held. The voting rights of the holders of the Preferred Shares, Series 12 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 12 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 the Preferred Shares, Series 12 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

### **Certain Provisions of the Preferred Shares, Series 13**

The holders of the Preferred Shares, Series 13 will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, 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. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on the Preferred Shares, Series 13 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 13 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The Preferred Shares, Series 13 will not be redeemable prior to April 28, 2010. On and after April 28, 2010, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, the Bank may redeem at any time all or from time to time any part of the outstanding Preferred Shares, Series 13, 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 of: \$26.00 if redeemed during the period commencing April 28, 2010 and ending April 26, 2011; \$25.75 if redeemed during the period commencing April 27, 2011 and ending April 25, 2012; \$25.50 if redeemed during the period commencing April 26, 2012 and ending April 25, 2013; \$25.25 if redeemed during the period commencing April 26, 2013 and ending April 27, 2014; and \$25.00 commencing April 28, 2014 and thereafter together with, in each case, declared and unpaid dividends to the redemption date.

Notice of any redemption 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 Preferred Shares, Series 13 are at any time to be redeemed, the shares to be redeemed will be selected by lot or in such other manner as the Bank may determine, or if the Bank decides, may be redeemed *pro rata*, disregarding fractions.

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 Preferred Share, Series 13 at the lowest price or prices at which in the opinion of the Board of Directors of the Bank such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 13 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, Series 13. The holders of the Preferred Shares, Series 13 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 13 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares, Series 13 given as specified below:

- (a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 13 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 13); or
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 13 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 13); or
- (c) redeem, purchase or otherwise retire less than all of the Preferred Shares, Series 13; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 13;

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 then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Preferred Shares (including the Preferred Shares, Series 13) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 13 without the authorization of the holders of the Preferred Shares, Series 13.

Subject to the provisions of the Bank Act, the holders of the Preferred Shares, Series 13 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 the Preferred Shares, Series 13 in any quarter. In that event, the holders of the Preferred Shares, Series 13 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held. The voting rights of the holders of the Preferred Shares, Series 13 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 13 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 the Preferred Shares, Series 13 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

#### **Certain Provisions of the Preferred Shares, Series 14**

The holders of the Preferred Shares, Series 14 will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, 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. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on the Preferred Shares, Series 14 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 14 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The Preferred Shares, Series 14 will not be redeemable prior to April 26, 2012. On and after April 26, 2012, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, the Bank may redeem at any time all or from time to time any part of the outstanding Preferred Shares, Series 14, 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 of: \$26.00 if redeemed during the period commencing April 26, 2012 and ending April 25, 2013; \$25.75 if redeemed during the period commencing April 26, 2013 and ending April 25, 2014; \$25.50 if redeemed during the period commencing April 28, 2014 and ending April 27, 2015; \$25.25 if redeemed during the period commencing April 28, 2015 and ending April 26, 2016; and \$25.00 commencing April 27, 2016.

Notice of any redemption 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 Preferred Shares, Series 14 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 Preferred Share, Series 14 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.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 14 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, Series 14. The holders of the Preferred Shares, Series 14 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 14 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares, Series 14 given as specified below:

- (a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 14 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 14); or
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 14 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 14); or
- (c) redeem, purchase or otherwise retire less than all of the Preferred Shares, Series 14; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 14;

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 then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Preferred Shares (including the Preferred Shares, Series 14) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 14 without the authorization of the holders of the Preferred Shares, Series 14.

Subject to the provisions of the Bank Act, the holders of the Preferred Shares, Series 14 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 the Preferred Shares, Series 14 in any quarter. In that event, the holders of the Preferred Shares, Series 14 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each of the Preferred Shares, Series 14 held. The voting rights of the holders of the Preferred Shares, Series 14 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 14 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 the Preferred Shares, Series 14 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

#### **Certain Provisions of the Preferred Shares, Series 15**

The holders of the Preferred Shares, Series 15 will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, 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. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on the Preferred Shares, Series 15 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 15 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The Preferred Shares, Series 15 will not be redeemable prior to July 27, 2012. On and after July 27, 2012, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, the Bank may redeem at any time all or from time to time any part of the outstanding Preferred Shares, Series 15, 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 of: \$26.00 if redeemed during the period commencing July 27, 2012 and ending July 28, 2013; \$25.75 if redeemed during the period commencing July 29, 2013 and ending July 28, 2014; \$25.50 if redeemed during the period commencing July 29, 2014 and ending July 28, 2015; \$25.25 if redeemed during the period commencing July 29, 2015 and ending July 26, 2016; and \$25.00 commencing July 27, 2016.

Notice of any redemption 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 Preferred Shares, Series 15 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 Preferred Share, Series 15 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.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 15 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, Series 15. The holders of the Preferred Shares, Series 15 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 15 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares, Series 15 given as specified below:

- (a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 15 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 15); or
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 15 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 15); or
- (c) redeem, purchase or otherwise retire less than all of the Preferred Shares, Series 15; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 15;

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 then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Preferred Shares (including the Preferred Shares, Series 15) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 15 without the authorization of the holders of the Preferred Shares, Series 15.

Subject to the provisions of the Bank Act, the holders of the Preferred Shares, Series 15 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 the Preferred Shares, Series 15 in any quarter. In that event, the holders of the Preferred Shares, Series 15 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each of the Preferred Shares, Series 15 held. The voting rights of the holders of the Preferred Shares, Series 15 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 15 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 the Preferred Shares, Series 15 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

#### **Certain Provisions of the Preferred Shares, Series 16**

The holders of the Preferred Shares, Series 16 will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, 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. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on the Preferred Shares, Series 16 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 16 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The Preferred Shares, Series 16 will not be redeemable prior to January 29, 2013. On and after January 29, 2013, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, the Bank may redeem at any time all or from time to time any part of the outstanding Preferred Shares, Series 16, 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 of: \$26.00 if redeemed during the period commencing January 29, 2013 and ending January 28, 2014; \$25.75 if redeemed during the period commencing January 29, 2014 and ending January 27, 2015; \$25.50 if redeemed during the period commencing January 28, 2015 and ending January 26, 2016; \$25.25 if redeemed during the period commencing January 27, 2016 and ending January 26, 2017; and \$25.00 commencing January 27, 2017.

Notice of any redemption 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 Preferred Shares, Series 16 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 Preferred Share, Series 16 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.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 16 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, Series 16. The holders of the Preferred Shares, Series 16 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 16 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares, Series 16 given as specified below:

- (a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 16 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 16); or
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 16 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 16); or
- (c) redeem, purchase or otherwise retire less than all of the Preferred Shares, Series 16; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 16;

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 then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Preferred Shares (including the Preferred Shares, Series 16) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 16 without the authorization of the holders of the Preferred Shares, Series 16.

Subject to the provisions of the Bank Act, the holders of the Preferred Shares, Series 16 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 the Preferred Shares, Series 16 in any quarter. In that event, the holders of the Preferred Shares, Series 16 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each of the Preferred Shares, Series 16 held. The voting rights of the holders of the Preferred Shares, Series 16 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 16 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 the

Preferred Shares, Series 16 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

#### **Certain Provisions of the Preferred Shares, Series 17**

The holders of the Preferred Shares, Series 17 will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, 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. If the Board of Directors does not declare the dividends, or any part thereof, on the Preferred Shares, Series 17 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 17 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The Preferred Shares, Series 17 will not be redeemable prior to April 26, 2013. On and after April 26, 2013, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, the Bank may redeem at any time all or from time to time any part of the outstanding Preferred Shares, Series 17, 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 of: \$26.00 if redeemed during the period commencing April 26, 2013 and ending April 25, 2014; \$25.75 if redeemed during the period commencing April 28, 2014 and ending April 27, 2015; \$25.50 if redeemed during the period commencing April 28, 2015 and ending April 26, 2016; \$25.25 if redeemed during the period commencing April 27, 2016 and ending April 25, 2017; and \$25.00 commencing April 26, 2017.

Notice of any redemption 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 Preferred Shares, Series 17 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 Preferred Shares, Series 17 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 17 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, Series 17. The holders of the Preferred Shares, Series 17 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 17 are outstanding, the Bank will not, without the required approval of the holders of the Preferred Shares, Series 17:

- (a) declare, pay or set apart for payment any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 17 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 17); or
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 17 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 17); or
- (c) redeem, purchase or otherwise retire less than all of the Preferred Shares, Series 17; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 17;

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 then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there shall have been paid or set apart for payment all declared dividends in respect of each



series of non-cumulative Preferred Shares (including the Preferred Shares, Series 17) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 17 without the authorization of the holders of the Preferred Shares, Series 17.

Subject to the provisions of the Bank Act, the holders of the Preferred Shares, Series 17 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 has not declared the whole dividend on the Preferred Shares, Series 17 in any quarter. In that event, the holders of the Preferred Shares, Series 17 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 of the Preferred Shares, Series 17 held. The voting rights of the holders of the Preferred Shares, Series 17 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 17 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 the Preferred Shares, Series 17 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

#### **Certain Provisions of the Preferred Shares, Series 18**

Until April 25, 2013, the holders of the Preferred Shares, Series 18 will be entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, on the third last business day of January, April, July and October in each year. Thereafter, the dividend rate will reset every five years at a rate of 2.05% over the five-year Government of Canada bond yield.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares, Series 18 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 18 to receive such dividend, or to any part thereof, for such quarter will be further extinguished.

The Preferred Shares, Series 18 will not be redeemable prior to April 26, 2013. Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, on April 26, 2013 and on April 26 every five years thereafter, the Bank may redeem all or any part of the then outstanding Preferred Shares, Series 18, 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 of \$25.00 together with all declared and unpaid dividends to the date fixed for redemption.

Notice of any redemption 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 Preferred Shares, Series 18 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 Preferred Shares, Series 18 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 18 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 18. The holders of the Preferred Shares, Series 18 will not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 18 are outstanding, the Bank will not, without the required approval of the holders of outstanding Preferred Shares, Series 18:

- (a) declare, pay or set apart for payment any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 18 (other than stock dividends payable in shares ranking junior to the Preferred Shares, Series 18);

- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 18 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 18);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 18; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 18;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will have been declared and paid or set apart for payment in respect of each series of cumulative Preferred Shares then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there will have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Preferred Shares (including the Preferred Shares, Series 18) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 18 without the authorization of the holders of the Preferred Shares, Series 18.

Subject to the provisions of the Bank Act, the holders of Preferred Shares, Series 18 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 has not declared the whole dividend on the Preferred Shares, Series 18 in respect of any quarter. In that event, the holders of Preferred Shares, Series 18 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, Series 18 held. The voting rights of the holders of the Preferred Shares, Series 18 will forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 18 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 the Preferred Shares, Series 18 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

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.

#### **Certain Provisions of the Preferred Shares, Series 19**

The holders of the Preferred Shares, Series 19 will be entitled to receive floating rate non-cumulative preferential cash dividends as and when declared by the Board of Directors, subject to the provisions of the Bank Act, at an annual rate of an amount per share equal to the 3-month Government of Canada Treasury Bill rate plus 2.05% multiplied by \$25.00, payable quarterly on the third last business day of January, April, July and October in each year.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares, Series 19 on or before the dividend payment date for a particular quarter then the entitlement of the holders of the Preferred Shares, Series 19 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, on not more than 60 nor less than 30 days' notice, the Bank may redeem all or any part of the then outstanding Preferred Shares, Series 19, 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 of (i) \$25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on April 26, 2018 and on April 26 every five years thereafter, or (ii) \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after April 26, 2013. If less than all the outstanding Preferred Shares, Series 19 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 of the Preferred Shares, Series 19 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 19 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 19. The holders of the Preferred Shares, Series 19 will not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 19 are outstanding, the Bank will not, without the required approval of the holders of outstanding Preferred Shares, Series 19 given as specified below:

- (a) declare, pay or set apart for payment any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 19 (other than stock dividends payable in shares of the Bank ranking junior to the Preferred Shares, Series 19);
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 19 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 19);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 19 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, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 19;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will have been declared and paid or set apart for payment in respect of each series of cumulative Preferred Shares then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there will have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Preferred Shares (including the Preferred Shares, Series 19) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 19 without the authorization of the holders of the Preferred Shares, Series 19.

Subject to the provisions of the Bank Act, the holders of Preferred Shares, Series 19 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 has not declared the whole dividend on the Preferred Shares, Series 19 in respect of any quarter. In that event, the holders of Preferred Shares, Series 19 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, Series 19 held. The voting rights of the holders of the Preferred Shares, Series 19 will forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 19 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 the Preferred Shares, Series 19 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

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 the 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.

#### **Certain Provisions of the Preferred Shares, Series 20**

Until October 25, 2013, the holders of the Preferred Shares, Series 20 will be entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the

Bank Act, on the third last business day of January, April, July and October in each year. Thereafter, the dividend rate will reset every five years at a rate of 1.70% over the five-year Government of Canada bond yield.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares, Series 20 on or before the dividend payment date for a particular quarter then the entitlement of the holders of the Preferred Shares, Series 20 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

The Preferred Shares, Series 20 will not be redeemable prior to October 26, 2013. Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, on October 26, 2013 and on October 26 every five years thereafter, the Bank may redeem all or any part of the then outstanding Preferred Shares, Series 20, 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 of \$25.00 together with all declared and unpaid dividends to the date fixed for redemption.

Notice of any redemption 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 Preferred Shares, Series 20 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 Preferred Shares, Series 20 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 20 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 20. The holders of the Preferred Shares, Series 20 will not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 20 are outstanding, the Bank will not, without the approval of the holders of outstanding Preferred Shares, Series 20 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, Series 20 (other than stock dividends payable in shares ranking junior to the Preferred Shares, Series 20);
- (b) redeem, purchase or otherwise retire any Common Shares of the Bank or any other shares ranking junior to the Preferred Shares, Series 20 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 20);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 20; 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, Series 20;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will 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 will 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, Series 20) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares of the Bank.

The Bank may issue other series of preferred shares ranking on a parity with the Preferred Shares, Series 20 without the authorization of the holders of the Preferred Shares, Series 20.

Subject to the provisions of the Bank Act, the holders of Preferred Shares, Series 20 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 has not declared the whole dividend on the Preferred Shares, Series 20 in respect of any quarter. In that event, the holders of Preferred Shares, Series 20 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, Series 20 held. The voting rights of the holders of the Preferred Shares, Series 20 will forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 20 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 the Preferred Shares, Series 20 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

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 the 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.

### **Certain Provisions of the Preferred Shares, Series 21**

The holders of the Preferred Shares, Series 21 will be entitled to receive floating rate non-cumulative preferential cash dividends as and when declared by the Board of Directors, subject to the provisions of the Bank Act, at an annual rate of an amount per share equal to the 3-month Government of Canada Treasury Bill rate plus 1.70% multiplied by \$25.00, payable quarterly on the third last business day of January, April, July and October in each year.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares, Series 21 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 21 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, on not more than 60 nor less than 30 days' notice, the Bank may redeem all or any part of the then outstanding Preferred Shares, Series 21, 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 of (i) \$25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on October 26, 2018 and on October 26 every five years thereafter, or (ii) \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after October 26, 2013. If less than all the outstanding Preferred Shares, Series 21 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 of the Preferred Shares, Series 21 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 21 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 21. The holders of the Preferred Shares, Series 21 will not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 21 are outstanding, the Bank will not, without the approval of the holders of outstanding Preferred Shares, Series 21 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, Series 21 (other than stock dividends payable in shares of the Bank ranking junior to the Preferred Shares, Series 21);
- (b) redeem, purchase or otherwise retire any Common Shares of the Bank or any other shares ranking junior to the Preferred Shares, Series 21 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 21);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 21 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 Preferred Shares, Series 21;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will 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 will 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, Series 21) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares of the Bank.

The Bank may issue other series of preferred shares ranking on a parity with the Preferred Shares, Series 21 without the authorization of the holders of the Preferred Shares, Series 21.

Subject to the provisions of the Bank Act, the holders of Preferred Shares, Series 21 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 has not declared the whole dividend on the Preferred Shares, Series 21 in respect of any quarter. In that event, the holders of Preferred Shares, Series 21 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, Series 21 held. The voting rights of the holders of the Preferred Shares, Series 21 will forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 21 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 the Preferred Shares, Series 21 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

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 the 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.

#### **Certain Provisions of the Preferred Shares, Series 22**

Until January 25, 2014, the holders of the Preferred Shares, Series 22 will be entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, on the third last business day of January, April, July and October in each year, at an annual rate equal to \$1.2500 per share. The initial dividend, if declared, will be payable January 28, 2009 and will be \$0.4829 per share. Thereafter, the dividend rate will reset every five years at a rate equal to 1.88% over the 5-year Government of Canada bond yield.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares, Series 22 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 22 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

The Preferred Shares, Series 22 will not be redeemable prior to January 26, 2014. Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain provisions being met, on January 26, 2014 and on January 26 every five years thereafter, the Bank may redeem all or any part of the then outstanding Preferred Shares, Series 22, 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 of \$25.00 together with all declared and unpaid dividends to the date fixed for redemption.

Notice of any redemption 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 Preferred Shares, Series 22 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 Preferred Shares, Series 22 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 22 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 22. The holders of the Preferred Shares, Series 22 will not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 22 are outstanding, the Bank will not, without the approval of the holders of outstanding Preferred Shares, Series 22 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, Series 22 (other than stock dividends payable in shares ranking junior to the Preferred Shares, Series 22);
- (b) redeem, purchase or otherwise retire any Common Shares of the Bank or any other shares ranking junior to the Preferred Shares, Series 22 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 22);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 22; 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, Series 22;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will 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 will 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, Series 22) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares of the Bank.

The Bank may issue other series of preferred shares ranking on a parity with the Preferred Shares, Series 22 without the authorization of the holders of the Preferred Shares, Series 22.

Subject to the provisions of the Bank Act, the holders of Preferred Shares, Series 22 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 has not declared the whole dividend on the Preferred Shares, Series 22 in respect of any quarter. In that event, the holders of Preferred Shares, Series 22 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, Series 22 held. The voting rights of the holders of the Preferred Shares, Series 22 will forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 22 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 the Preferred Shares, Series 22 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

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 the 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.

### **Certain Provisions of the Preferred Shares, Series 23**

The holders of the Preferred Shares, Series 23 will be entitled to receive floating rate non-cumulative preferential cash dividends as and when declared by the Board of Directors, subject to the provisions of the Bank Act, at an annual rate of an amount per share equal to the 3-month Government of Canada Treasury Bill rate plus 1.88% multiplied by \$25.00, payable quarterly on the third last business day of January, April, July and October in each year.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares, Series 23 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 23 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, on not more than 60 nor less than 30 days' notice, the Bank may redeem all or any part of the then outstanding Preferred Shares, Series 23, 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 of (i) \$25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on January 26, 2019 and on January 26 every five years thereafter, or (ii) \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after January 26, 2014. If less than all the outstanding Preferred Shares, Series 23 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions.

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 of the Preferred Shares, Series 23 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 23 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 23. The holders of the Preferred Shares, Series 23 will not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 23 are outstanding, the Bank will not, without the approval of the holders of outstanding Preferred Shares, Series 23 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, Series 23 (other than stock dividends payable in shares of the Bank ranking junior to the Preferred Shares, Series 23);
- (b) redeem, purchase or otherwise retire any Common Shares of the Bank or any other shares ranking junior to the Preferred Shares, Series 23 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 23);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 23 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 Preferred Shares, Series 23;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will 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 will 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, Series 23) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares of the Bank.

The Bank may issue other series of preferred shares ranking on a parity with the Preferred Shares, Series 23 without the authorization of the holders of the Preferred Shares, Series 23.

Subject to the provisions of the Bank Act, the holders of Preferred Shares, Series 23 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 has not declared the whole dividend on the Preferred Shares, Series 23 in respect of any quarter. In that event, the holders of Preferred Shares, Series 23 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, Series 23 held. The voting rights of the holders of the Preferred Shares, Series 23 will forthwith cease upon payment by the Bank of the first



dividend on the Preferred Shares, Series 23 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 the Preferred Shares, Series 23 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

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 the 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.

### 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.

### Ratings of Securities

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. All of the ratings assigned to the Bank's securities have remained unchanged during the 2008 fiscal year.

	<u>Moody's Investor Service</u>	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>	<u>DBRS</u>
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	Aa3	A	Not rated	Pfd-1

The above-noted ratings have the following meanings:

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

- Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income 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 rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. The plus sign (+) indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
- A rating of A using S&P's global scale for preferred shares is in the highest of the three categories used by S&P on its global scale. The Bank's non-cumulative preferred shares were 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.

### ***Fitch Ratings***

- AA rated securities have a very high credit quality and denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. The minus sign (-) denotes 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 changes in circumstances or in economic conditions than is the case for higher ratings. The plus sign (+) denotes relative status within the A category.
- F1 is the highest credit quality and indicates the strongest 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, and protection of interest and principal is considered high. In many cases they differ from long-term debt rated AAA only to a small degree. Given the extremely restrictive definition DBRS has for the AAA category, entities rated AA are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable 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 an entity possessing unquestioned ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels, and profitability that is both stable and above average. Companies achieving an R-1 (high) rating are normally leaders in structurally sound industry segments with proven track records, sustainable positive future results, and no substantial qualifying negative factors. Given the extremely tough definition DBRS has established for an R-1 (high), few entities are strong enough to achieve this rating.
- 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.

### **MARKET FOR SECURITIES OF THE BANK**

The Bank's common shares trade 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, and "BNS.PR.R" for the Preferred Shares, Series 22. 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 <sup>(1)</sup>	Series 18 <sup>(2)</sup>	Series 20 <sup>(3)</sup>	Series 22 <sup>(4)</sup>
<b>November 2007</b>										
-High Price (\$)	54.00	25.29	23.24	21.29	21.25	24.80	—	—	—	—
-Low Price (\$)	48.50	24.40	22.42	20.32	20.36	24.31	—	—	—	—
-Volume ('000)	48,745	244	548	786	734	373	—	—	—	—
<b>December 2007</b>										
-High Price (\$)	53.50	25.57	22.98	21.83	21.99	25.24	—	—	—	—
-Low Price (\$)	45.50	24.51	21.76	20.96	21.00	24.50	—	—	—	—
-Volume ('000)	38,646	133	295	768	1,051	422	—	—	—	—
<b>January 2008</b>										
-High Price (\$)	50.35	25.00	23.28	21.65	21.71	25.00	25.06	—	—	—
-Low Price (\$)	43.10	24.09	22.00	20.75	20.05	23.01	24.98	—	—	—
-Volume ('000)	69,068	121	153	199	425	422	551	—	—	—
<b>February 2008</b>										
-High Price (\$)	49.65	25.14	23.65	22.24	22.25	24.99	25.70	—	—	—
-Low Price (\$)	47.20	24.56	22.90	21.30	21.14	24.07	25.07	—	—	—
-Volume ('000)	48,666	174	113	469	411	220	1,248	—	—	—
<b>March 2008</b>										
-High Price (\$)	48.25	25.17	23.52	21.88	21.85	24.94	25.58	25.15	—	—
-Low Price (\$)	42.00	24.25	21.77	20.55	20.28	23.23	24.52	24.90	—	—
-Volume ('000)	81,115	116	123	249	287	144	545	1,142	—	—
<b>April 2008</b>										
-High Price (\$)	50.00	24.50	22.48	20.94	21.00	24.24	25.15	25.30	—	—
-Low Price (\$)	44.45	23.55	21.41	20.22	20.00	23.20	24.63	24.95	—	—
-Volume ('000)	64,580	375	319	177	257	235	244	748	—	—
<b>May 2008</b>										
-High Price (\$)	50.00	24.67	22.29	21.17	21.14	24.24	25.50	25.60	—	—
-Low Price (\$)	46.89	23.52	21.54	20.33	20.15	23.36	25.00	25.25	—	—
-Volume ('000)	57,514	131	1,051	392	787	283	273	709	—	—
<b>June 2008</b>										
-High Price (\$)	52.51	24.67	22.42	20.99	21.10	24.34	25.34	25.61	25.19	—
-Low Price (\$)	46.18	22.75	20.76	19.06	19.00	22.00	24.40	25.30	24.95	—
-Volume ('000)	68,052	111	1,236	347	441	341	409	515	1,446	—
<b>July 2008</b>										
-High Price (\$)	50.72	22.98	21.20	19.15	19.06	23.01	24.75	25.49	25.48	—
-Low Price (\$)	41.95	20.85	19.27	17.75	17.57	20.76	22.90	24.81	24.70	—
-Volume ('000)	78,760	620	812	977	973	216	156	183	471	—
<b>August 2008</b>										
-High Price (\$)	51.55	23.49	21.47	19.59	19.70	23.34	25.15	25.74	25.72	—
-Low Price (\$)	46.22	22.39	20.12	18.30	18.31	22.14	24.02	25.16	24.99	—
-Volume ('000)	49,093	156	242	488	418	174	195	293	432	—
<b>September 2008</b>										
-High Price (\$)	50.69	23.55	22.20	20.00	19.95	23.50	25.10	25.50	25.20	25.12
-Low Price (\$)	43.25	23.01	21.31	19.27	19.33	22.77	24.69	25.10	24.41	24.86
-Volume ('000)	99,404	160	151	332	628	290	144	219	519	1,629
<b>October 2008</b>										
-High Price (\$)	48.86	23.02	21.75	19.89	19.89	23.14	24.87	25.25	24.95	24.99
-Low Price (\$)	35.25	19.61	18.75	16.60	16.88	19.63	20.00	23.80	22.51	22.50
-Volume ('000)	106,718	269	337	908	978	208	220	381	262	371

(1) The Preferred Shares, Series 17 were issued on January 31, 2007.

(2) The Preferred Shares, Series 18 were issued on March 25, 2008.

(3) The Preferred Shares, Series 20 were issued on June 10, 2008.

(4) The Preferred Shares, Series 22 were issued on September 9, 2008.

## Prior Sales

In the most recently completed financial year, the Bank issued the following securities which are not listed on any marketplace:

Security	Date Issued	Issue Price to Public per \$1,000 Principal Amount of Debentures	Number of Securities Issued
5.30% BNS \$300 Million Subordinated Notes due 2018	January 31, 2008	\$999.70	300,000
4.99% BNS \$1.7 Billion Subordinated Notes due 2018	March 27, 2008	\$999.82	1,700,000
6.00% BNS \$950 Million Subordinated Notes due 2018	October 3, 2008	\$999.70	950,000

For a list of all subordinated indebtedness of the Bank see note 12 to the Bank's comparative financial statements for its year ended October 31, 2008.

## DIRECTORS AND EXECUTIVE OFFICERS OF THE BANK

### Directors and Board Committees of the Bank

The following are the Bank's directors as of December 8, 2008. 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. As Mr. Scace and Mr. Lemaire are no longer eligible to stand for re-election at the next annual meeting of shareholders, they will be retiring from the Board of Directors at that meeting but will continue to act as directors until then. The Board intends to appoint Mr. Scace and Mr. Lemaire as honorary directors following the next annual meeting of shareholders. Information concerning the nominees proposed by management for election as directors at the annual meeting of shareholders will be contained in the Bank's 2008 Management Proxy Circular.

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
Ronald A. Brenneman Calgary, Alberta, Canada (Director since March 28, 2000)	ACRC HRC	President and Chief Executive Officer of Petro-Canada, an oil and gas company	74,977 / 27,620
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, Singapore	33,624 / 13,476

<b>Name and Municipality and Province of Residence</b>	<b>Board Committee Memberships</b>	<b>Principal Occupation</b>	<b>Shares / DDSUs Owned</b>
N. Ashleigh Everett Winnipeg, Manitoba, Canada (Director since October 28, 1997)	CGPC HRC	President, Corporate Secretary and director of Royal Canadian Securities Limited, whose principal businesses include Domo Gasoline Corporation (a gasoline retailer) and Royal Canadian Properties Limited (a real estate and property development company)	12,308 / 20,543
John C. Kerr, C.M., O.B.C., LL.D. Vancouver, British Columbia, Canada (Director since March 30, 1999)	CGPC HRC	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	11,800 / 26,408
The Honourable Michael J.L. Kirby Nepean, Ontario, Canada (Director since March 28, 2000)	ACRC – Chair ERC	Chairman of The Mental Health Commission of Canada, a Corporate Director and retired Member of the Senate of Canada	1,532 / 31,205
Laurent Lemaire Warwick, Quebec, Canada (Director since March 31, 1987)	ERC HRC	Chairman of the Board of Cascades Inc., a manufacturer of pulp and paper products, packaging and construction materials and sanitary products	20,303 / 0
John T. Mayberry, C.M. Burlington, Ontario, Canada (Director since March 29, 1994)	ERC – Chair HRC	Corporate Director and retired Chair of the Board and Chief Executive Officer of Dofasco Inc., a manufacturer of primary steel products	12,207 / 29,215
Thomas C. O'Neill Toronto, Ontario, Canada (Director since May 26, 2008)	ACRC	Corporate Director and retired Chair of the Board of PwC Consulting, a management consulting firm	11,300 / 1,711
Dr. Elizabeth Parr-Johnston, C.M., Ph.D., D.Litt. Chester Basin, Nova Scotia, Canada (Director since October 26, 1993)	ACRC CGPC	President of Parr Johnston Economic and Policy Consultants	9,620 / 22,919
Alexis E. Rovzar de la Torre New York, New York, U.S.A. (Director since December 31, 2005)	ACRC CGPC	Partner, Latin American practice group of White & Case LLP, a global law firm	7,665 / 0

<b>Name and Municipality and Province of Residence</b>	<b>Board Committee Memberships</b>	<b>Principal Occupation</b>	<b>Shares / DDSUs Owned</b>
Dr. Indira V. Samarasekera, O.C., Ph.D. Edmonton, Alberta, Canada (Director since May 26, 2008)	ACRC	President and Vice-Chancellor of the University of Alberta	173 / 879
Arthur R.A. Scace, C.M., Q.C. Toronto, Ontario, Canada (Director since March 25, 1997. Non-Executive Chair since March 2, 2004)	ERC HRC – Chair Ex-officio member of ACRC and CGPC	Non-Executive Chairman of the Bank	16,590 / 16,449
Allan C. Shaw, C.M., LL.D. Halifax, Nova Scotia, Canada (Director since September 30, 1986)	CGPC – Chair ERC	Non-Executive Chairman of The Shaw Group Holding Limited, a manufacturer of residential and construction products and a real estate developer	74,084 / 30,151
Paul D. Sobey Kings Head, 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	20,000 / 26,662
Barbara S. Thomas Belleair, Florida, U.S.A. (Director since September 28, 2004)	ACRC HRC	Corporate Director	7,924 / 0
Richard E. Waugh Toronto, Ontario, Canada (Director since March 25, 2003)	ERC	President and Chief Executive Officer of the Bank	125,346 / 363,093 (DSUs)

**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, 2008.

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 The Honourable Michael J.L. Kirby, who, prior to October 2006, was a Member of the Senate of Canada; Dr. Indira V. Samarasekera who, from 2000 to 2005, was the Vice-President Research at the University of British Columbia; Arthur R.A. Scace who, prior to January 1, 2004 was a partner of McCarthy Tétrault LLP (Barristers and Solicitors); and Barbara S. Thomas who, from 2002 to 2003, was a director and Interim Chief Executive Officer of Ocean Spray Company.

### Executive Officers of the Bank

The following are the Bank's executive officers, their titles and municipalities of residence in Canada as of December 8, 2008:

<b>Name and Principal Occupation</b>	<b>Municipality of Residence</b>
Richard E. Waugh President and Chief Executive Officer	Toronto, Ontario
Sarabjit S. Marwah Vice-Chairman and Chief Operating Officer	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
Sylvia D. Chrominska Group Head, Global Human Resources and Communications	Toronto, Ontario
Wendy G. Hannam Executive Vice-President — Personal Banking and Distribution, Canada	Toronto, Ontario
Stephen Hart Executive Vice-President, Chief Credit Officer	Oakville, Ontario
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 — Personal Lending and Insurance, Canada	Toronto, Ontario
Christopher J. Hodgson Group Head, Canadian Banking	Toronto, Ontario
Dieter W. Jentsch Executive Vice-President, Commercial Banking, Canada	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
Robert H. Pitfield Group Head, International Banking	Toronto, Ontario

**Name and Principal Occupation****Municipality of Residence**

Brian J. Porter

Toronto, Ontario

Group Head, Risk and Treasury

Jane Rowe

Toronto, Ontario

Executive Vice-President — Executive Offices

Luc A. Vanneste

Etobicoke, Ontario

Executive Vice-President and Chief Financial Officer

Anatol von Hahn

Toronto, Ontario

Executive Vice-President — Latin America

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 Brian J. Porter who, prior to November 1, 2005, was a senior officer of Scotia Capital Inc.; and 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.

**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.

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 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 neither significant nor material and would include penalties such as late filing fees.

## **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, 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1 and Computershare Trust Company, Inc., 350 Indiana Street, Golden, Colorado, 80401, 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, Suite 3300 Commerce Court West, P.O. Box 31, Station Commerce Court, Toronto, Ontario, M5L 1B2. 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* 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 (Chair), Ronald A. Brenneman (financial expert), Thomas C. O'Neill, Elizabeth Parr-Johnston, Alexis E. Rovzar, Indira V. Samarasekera, Paul D. Sobey and Barbara S. Thomas. Arthur R.A. Scace 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 committee and Board of Directors 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** (Chair) — 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 has extensive employment experience directly related to the preparation of and supervision of the preparation of financial statements. He is currently the President and Chief Executive Officer of Petro-Canada (2000 to present), 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.

**Elizabeth Parr-Johnston** — Dr. Parr-Johnston holds a M.A. and Ph.D. in economics from Yale University. She is a former President and Vice-Chancellor of two Canadian universities.

**Alexis E. Rovzar** — Mr. Rovzar is a Partner 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 all 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 The Dial Corporation and is a current member of the audit committee of Spectrum Brands Corporation (formerly Rayovac Corporation) and 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 59 on page 92 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, 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, audits of employee benefit plans, other associated entities and mutual funds, and special attest services not required by statute or regulation, but requested by a party to a specific transaction. In 2008 these services included specified procedures with respect to a potential international acquisition, training on accounting and financial reporting, review of controls and procedures related to regulatory reporting of a subsidiary as requested by the local regulator, and consultation on the potential impact of new accounting standards.
- Tax services outside of the audit scope represent primarily specified procedures to assist in the preparation of personal tax returns of individuals not in financial reporting or accounting roles, 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 providing industry salary surveys.

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 it 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, 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 comparative 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 comparative financial statements and Management’s Discussion and Analysis for its year ended October 31, 2008. 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, 2008 (\$ millions)	Principal office	Carrying value of shares
<b>Canadian</b>		
BNS Capital Trust	Toronto, Ontario	\$ 122
BNSII Group	Toronto, Ontario	\$10,636
Montreal Trust Company of Canada	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
BNS Investments Inc.	Toronto, Ontario	
Dundee Bank of Canada	Toronto, Ontario	\$ 265
Maple Trust Company	Toronto, Ontario	\$ 238
National Trustco Inc.	Toronto, Ontario	\$ 509
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Toronto, Ontario	
RoyNat Inc.	Toronto, Ontario	\$ 62
Scotia Capital Inc.	Toronto, Ontario	\$ 306
3045175 Nova Scotia Company	Toronto, Ontario	\$ 504
Scotia Cassels Investment Counsel Limited	Toronto, Ontario	\$ 16
Scotia Dealer Advantage Inc. <sup>(2)</sup>	Burnaby, British Columbia	\$ 71
Scotia Life Insurance Company	Toronto, Ontario	\$ 108
Scotia Mortgage Corporation	Toronto, Ontario	\$ 247
Scotia Securities Inc.	Toronto, Ontario	\$ 521
Scotiabank Capital Trust <sup>(3)</sup>	Toronto, Ontario	\$ 5
Scotiabank Subordinated Notes Trust <sup>(3)</sup>	Toronto, Ontario	\$ 1
<b>International</b>		
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	\$ 184
The Bank of Nova Scotia International Limited	Nassau, Bahamas	\$ 9,413
Scotia 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) Limited	Grand Cayman, Cayman Islands	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotiabank (Bahamas) Limited	Nassau, Bahamas	
Scotiabank (British Virgin Islands) Limited	Road Town, Tortola, B.V.I.	
Scotiabank (Hong Kong) Limited	Hong Kong, China	
Scotiabank (Ireland) Limited	Dublin, Ireland	
Scotia Group Jamaica Limited (71.8%)	Kingston, Jamaica	\$ 454
The Bank of Nova Scotia Jamaica Limited	Kingston, Jamaica	
Scotia DBG Investments Limited <sup>(4)</sup> (77.0%)	Kingston, Jamaica	
Grupo Financiero Scotiabank Inverlat, S.A. de C.V. (97.3%)	Mexico, D.F., Mexico	\$ 2,327
Nova Scotia Inversiones Limitada	Santiago, Chile	\$ 1,477
Scotiabank Sud Americano, S.A. (99.7%)	Santiago, Chile	
Banco del Desarrollo (99.55%)	Santiago, Chile	
Scotia Capital (USA) Inc.	New York, New York	<sup>(5)</sup>
Scotia Holdings (US) Inc.	Houston, Texas	<sup>(6)</sup>
The Bank of Nova Scotia Trust Company of New York	New York, New York	
Scotiabanc Inc.	Houston, Texas	
Scotia International Limited	Nassau, Bahamas	\$ 1,013
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	\$ 275
Scotiabank El Salvador, S.A. (99.5%)	San Salvador, El Salvador	\$ 425
Scotiabank Europe plc	London, England	\$ 2,218
Scotiabank Peru S.A.A. (97.6%)	Lima, Peru	\$ 1,300
Scotiabank Trinidad & Tobago Limited (50.9%)	Port of Spain, Trinidad	\$ 199

(1) The Bank owns 100% of the outstanding voting shares of each subsidiary unless otherwise noted. The listing includes major operating subsidiaries only.

(2) Formerly Travelers Leasing Corporation.

(3) In terms of current accounting standards, this entity is not consolidated as the Bank is not the primary beneficiary.

(4) Formerly Dehring, Bunting & Golding Limited.

(5) The carrying value of this subsidiary is included with that of its parent, Scotia Capital Inc.

(6) The carrying value of this subsidiary is included with that of its parent, BNS Investments Inc.

## **Schedule B**

### **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 “Act”) and the regulations thereunder; and
  - other applicable legislation and regulations including those of the Ontario Securities Commission (“OSC”) and the Canadian Securities Administrators (the “CSA”), the Toronto Stock Exchange (“TSX”), the New York Stock Exchange (“NYSE”), the Securities and Exchange Commission (“SEC”) 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 external auditor’s qualifications and independence;
  - the performance of the Bank’s internal audit function and independent auditors; and
  - the preparation of a committee report for inclusion in the Bank’s proxy circular.
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;
- 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.

### **Compliance**

- receive reports from management on the Bank's compliance with legal and regulatory requirements and the effectiveness of the Bank's compliance policies, including:
  - review the annual report 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 with representatives of the Office of the Superintendent of Financial Institutions 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; and
- review such returns as specified by OSFI.

### **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 Financial Reporting Whistleblower Program.

#### Internal Audit

- review and approve the annual audit plan, annual budgets and resources of the Chief Internal Auditor;
- review the quarterly reports of the Chief Internal Auditor;
- meet with the Chief Internal Auditor, or the officer or employee of the Bank acting in a similar capacity, and with the management of the Bank, to discuss the effectiveness of the Bank's internal control procedures;
- review and approve periodically the Charter for the Audit Department and the mandate for the Chief Internal Auditor;
- review the annual performance appraisal of the Chief Internal Auditor;
- review the objectivity of the Bank's internal audit function; and
- approve the appointment of the Chief Internal Auditor.

#### 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;
- 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; 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 the 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 the 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 external members of the Committee shall meet immediately prior to and/or following the conclusion of the regular agenda matters.

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 revised and approved by the Board on June 24, 2008.**

<DOCUMENT>  
<TYPE> EX-99.2  
<FILENAME> o42611exv99w2.htm  
<DESCRIPTION> EX 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
<TEXT>



# Management's Discussion and Analysis

## Table of Contents

23 2008 financial highlights

## Overview

24 Financial results

26 Shareholder returns

26 Impact of foreign currency translation

26 Impact of acquisitions

27 Non-GAAP measures

## Group Financial Performance

28 Total revenue

28 Net interest income

29 Other income

32 Non-interest expenses

32 Non-controlling interest

32 Taxes

32 Credit quality

35 Fourth quarter review

## Group Financial Condition

37 Balance sheet

38 Capital management

42 Off-balance sheet arrangements

47 Financial instruments

48 Selected credit instruments

## Business Lines

51 Overview

52 Canadian Banking

55 International Banking

58 Scotia Capital

61 Other

## Risk Management

62 Overview

64 Credit risk

68 Market risk

73 Liquidity risk

75 Operational risk

75 Reputational risk

76 Environmental risk

## Controls and Accounting Policies

77 Controls and procedures

77 Critical accounting estimates  
81 Changes in accounting policies  
82 Transition to international financial reporting standards  
82 Related party transactions

### **Supplementary Data**

83 Geographic information  
85 Credit risk  
90 Capital  
91 Revenues and expenses  
92 Other information  
94 Eleven-year statistical review

---

## Management's Discussion and Analysis

### 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; 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; 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 62 of this report.

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 8, 2008



## 2008 financial highlights

As at and for the years ended October 31

	2008	2007	2006	2005	2004
<b>Operating results</b> (\$ millions)					
Net interest income	7,574	7,098	6,408	5,871	5,701
Net interest income (TEB <sup>(1)</sup> )	7,990	7,629	6,848	6,197	5,975
Total revenue	11,876	12,490	11,208	10,400	10,021
Total revenue (TEB <sup>(1)</sup> )	12,292	13,021	11,648	10,726	10,295
Provision for credit losses	630	270	216	230	390
Non-interest expenses	7,296	6,994	6,443	6,043	5,862
Provision for income taxes	691	1,063	872	847	786
Provision for income taxes (TEB <sup>(1)</sup> )	1,107	1,594	1,312	1,173	1,060
Net income	3,140	4,045	3,579	3,209	2,908
Net income available to common shareholders	3,033	3,994	3,549	3,184	2,892

### Operating performance

Basic earnings per share (\$)	3.07	4.04	3.59	3.19	2.87
Diluted earnings per share (\$)	3.05	4.01	3.55	3.15	2.82
Return on equity <sup>(1)</sup> (%)	16.7	22.0	22.1	20.9	19.9
Productivity ratio (%) (TEB <sup>(1)</sup> )	59.4	53.7	55.3	56.3	56.9
Net interest margin on total average assets (%) (TEB <sup>(1)</sup> )	1.75	1.89	1.95	2.00	2.10

### Balance sheet information

 (\$ millions)

Cash resources and securities	125,353	118,030	118,878	93,964	75,928
Loans and acceptances <sup>(2)</sup>	300,649	238,685	212,329	178,003	160,974
Total assets	507,625	411,510	379,006	314,025	279,212
Deposits	346,580	288,458	263,914	217,445	195,196
Preferred shares	2,860	1,635	600	600	300
Common shareholders' equity	18,782	17,169	16,947	15,482	14,685
Assets under administration	203,147	195,095	191,869	171,392	156,800
Assets under management	36,745	31,403	27,843	26,630	21,225

### Capital measures<sup>(3)</sup>

Tier 1 capital ratio (%)	9.3	9.3	10.2	11.1	11.5
Total capital ratio (%)	11.1	10.5	11.7	13.2	13.9
Common equity to risk-weighted assets (%)	8.3	7.8	8.8	9.7	9.9
Tangible common equity to risk-weighted assets <sup>(1)</sup> (%)	7.3	7.2	8.3	9.3	9.7
Risk-weighted assets (\$ millions)	250,591	218,337	197,010	162,799	150,549

### Credit quality

Net impaired loans <sup>(4)</sup> (\$ millions)	1,191	601	570	681	879
General allowance for credit losses (\$ millions)	1,323	1,298	1,307	1,330	1,375
Net impaired loans as a % of loans and acceptances <sup>(2)(3)</sup>	0.40	0.25	0.27	0.38	0.55
Specific provision for credit losses as a % of average loans and acceptances <sup>(2)</sup>	0.24	0.13	0.14	0.16	0.31

### Common share information

Share price (\$)					
High	54.00	54.73	49.80	44.22	40.00
Low	35.25	46.70	41.55	36.41	31.08
Close	40.19	53.48	49.30	42.99	39.60
Shares outstanding (millions)					
Average — Basic	987	989	988	998	1,010
Average — Diluted	993	997	1,001	1,012	1,026
End of period	992	984	990	990	1,009



Dividends per share (\$)	1.92	1.74	1.50	1.32	1.10
Dividend yield (%)	4.3	3.4	3.3	3.3	3.1
Market capitalization (\$ millions)	39,865	52,612	48,783	42,568	39,937
Book value per common share (\$)	18.94	17.45	17.13	15.64	14.56
Market value to book value multiple	2.1	3.1	2.9	2.7	2.7
Price to earnings multiple (trailing 4 quarters)	13.1	13.2	13.7	13.5	13.8

#### Other information

Employees <sup>(5)</sup>	69,049	58,113	54,199	46,631	43,928
Branches and offices	2,672	2,331	2,191	1,959	1,871

- 
- (1) Non-GAAP measure. Refer to the non-GAAP measures on page 27.
- (2) Certain comparative amounts have been restated to conform with current period presentation.
- (3) 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.
- (4) Net impaired loans are impaired loans less the specific allowance for credit losses.
- (5) Amounts for prior periods reflect final numbers for all new acquisitions.

## Management's Discussion and Analysis



### Overview

#### Financial results

Scotiabank's net income in 2008 was \$3,140 million, a reduction of \$905 million from last year. Return on equity was 16.7%, compared to 22.0% in 2007. Earnings per share (diluted) were \$3.05 versus \$4.01 in 2007.

The Bank's 2008 results were negatively impacted by unprecedented volatility in global financial markets. These conditions led to charges of \$1,221 million (\$822 million after tax) relating to certain trading activities and valuation adjustments. These are described below in Items of note.

Notwithstanding these challenges and higher funding costs, the core earnings of our three business lines were solid.

Total revenues were \$12,292 million (on a taxable equivalent basis), a decrease of \$729 million or 6% compared to last year. Net interest income rose 5% as a result of strong asset growth from business operations and acquisitions. This was partly offset by the negative impact of foreign currency translation due to a strengthening of the Canadian dollar for most of the year, as well as the unfavourable change in fair value of derivatives used for asset liability management.

Other income was 20% lower, as the significant charges recorded this year and the 2007 gain on the Visa restructuring more than offset higher revenues in a number of areas, including credit cards, mutual funds and credit fees. The increased contribution from recent acquisitions more than offset the impact of foreign currency translation.

Non-interest expenses rose 4% compared to last year, including a positive impact from foreign currency translation. The increase was driven primarily by acquisitions and expenditures to support business growth, partly offset by lower performance based compensation. Our productivity ratio, at 59.4% compared to 53.7% in 2007, was impacted by the charges noted earlier. Notwithstanding this impact, our ratio remains among the lowest of our domestic peers.

The provision for credit losses was \$630 million, an increase of \$360 million compared to last year, due to higher provision in both the retail and commercial portfolios this year, and lower loan loss recoveries compared to 2007.

The overall tax rate was 17.5%, down from 20.3% last year, due largely to a decrease in the statutory tax rate.

Our capital position remains strong. We have been proactive in raising capital, particularly preferred shares and subordinated debentures, and we continue to generate capital from operations. Our Tier 1 capital ratio, at 9.3%, remains well above the regulatory minimum and is strong by international standards. Our tangible common equity ratio, a key measure of capital strength, was 7.3%, up slightly from last year.



#### Earnings per share (diluted)



#### Items of note

The Bank incurred charges of \$1,221 million (\$822 million after tax) or approximately \$0.82 per share, as described below and as shown in Table 2.

## Valuation adjustments

Many of the Bank's structured credit investments required valuation adjustments to reduce their carrying value to fair value, with a resultant charge to the income statement. The assets affected were primarily collateralized debt obligations (CDOs), structured investment vehicles (SIVs) and non-bank asset-backed commercial paper (ABCP) subject to the Montreal Accord. As well, certain equity and debt investments were also negatively impacted by the continuing decline in equity and corporate bond prices.



### Common share price



Valuation adjustments on CDOs taken this year comprised the following:

- Conduit CDOs: \$298 million (\$166 million after tax) relating to the purchase of certain assets, primarily CDOs from the Bank's U.S. multi-seller conduit, pursuant to the terms of a liquidity asset purchase agreement. This was caused by the widening of credit spreads, coupled with recent credit events in certain previously highly rated reference assets. The remaining direct CDO exposure in the conduit is nil.
- Other CDOs: \$218 million (\$176 million after tax) due primarily to a significant increase in credit spreads.

The remaining exposure relating to non-trading CDOs was \$420 million at October 31, 2008 (US\$348 million).

A mark-to-market writedown of \$107 million (\$72 million after tax) was taken in 2008 with respect to the Bank's investments in SIVs and non-bank ABCP subject to the Montreal Accord. This decrease was due mainly to a significant widening of credit spreads and the disruption of the ABCP market in Canada.

Writedowns of available-for-sale (AFS) securities were \$217 million (\$150 million after tax) as a result of the ongoing deterioration of economic conditions and volatility in debt and equity markets.

#### Trading counterparty losses

The Bank incurred a charge in trading revenues related to the bankruptcy of Lehman Brothers of \$171 million (\$117 million after tax) in the fourth quarter. This loss was due primarily to a failed settlement and the unwinding of trades in a rapidly declining equity market shortly after the bankruptcy.

The remainder of the losses of \$48 million (\$32 million after tax) in this category related to a valuation adjustment against a swap exposure to a U.S. monoline insurer earlier in the year.

#### Asset/Liability management

##### (ALM) hedging

There were mark-to-market losses of \$162 million (\$109 million after tax) in the fourth quarter relating to interest rate derivatives used for asset/liability management purposes relating to a specific loan portfolio that do not qualify for hedge accounting. This was a result of a decline in interest rates and is expected to reverse over the average three-year life of the hedges such that no economic loss should occur.

#### Outlook

The global economy decelerated during the second of half of 2008. In the Bank's major markets, with household, business and investor confidence at a low ebb, economic activity will likely be weak through much of 2009. Volatility in world financial markets is also expected to continue. In this uncertain environment, we will carefully manage our risks and our expenses, balancing both with selective investments in growth initiatives. Overall, we expect moderate growth for the Bank in 2009, with ongoing contributions from our three business lines and further acquisitions.



#### Items of note

For the years ended October 31  
(\$ millions, except EPS)

	2008		2007	
	Pre-tax	After-tax	Pre-tax	After-tax
Valuation adjustments				
Conduit CDOs	\$ (298)	\$ (166)	\$ (115)	\$ (80)
Other CDOs	(218)	(176)		
SIVs/ABCP	(107)	(72)	(76)	(53)
Other AFS securities	(217)	(150)		
Trading counterparty losses				
Lehman Brothers	(171)	(117)		
Other	(48)	(32)		
ALM hedging	(162)	(109)		
Visa Inc restructuring gain			202	163
Sale of bond index business			43	35

	<u><b>\$(1,221)</b></u>	<u><b>\$ (822)</b></u>	<u><b>\$ 54</b></u>	<u><b>\$ 65</b></u>
EPS impact		<u><b>\$ (0.82)</b></u>		<u><b>\$ 0.07</b></u>
Canadian Banking	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 111</b>	<b>\$ 92</b>
International Banking	<b>(147)</b>	<b>(128)</b>	<b>91</b>	<b>71</b>
Scotia Capital	<b>(632)</b>	<b>(382)</b>	<b>(92)</b>	<b>(59)</b>
Other	<b>(442)</b>	<b>(312)</b>	<b>(56)</b>	<b>(39)</b>
Total	<u><b>\$(1,221)</b></u>	<u><b>\$ (822)</b></u>	<u><b>\$ 54</b></u>	<u><b>\$ 65</b></u>
Securities gains	<b>\$ (783)</b>		<b>\$ (76)</b>	
Trading revenue	<b>(219)</b>		<b>(115)</b>	
Net interest income	<b>(162)</b>		<b>—</b>	
Other/Other income	<b>(57)</b>		<b>245</b>	
Total	<u><b>\$(1,221)</b></u>		<u><b>\$ 54</b></u>	

## Management's Discussion and Analysis

### Shareholder returns

Total shareholder return (including both dividends and change in the price of the Bank's common shares) was negative 21.6%. This compares favourably to returns on financial services companies globally, which were down more than 40% as measured by the S&P Global Financial Services index. It also compares favourably to the S&P/TSX Composite Total Return Index, which lost more than 31% over the same period.

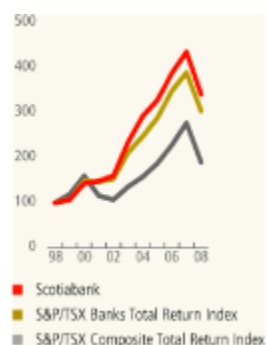
The compound annual return on the Bank's shares has averaged 13.1% over the past 10 years, well ahead of the S&P/TSX Composite, which returned just 6.6% per year.

Shareholders also received two quarterly dividend increases during the year. Dividends per share totaled \$1.92, an increase of 10% from 2007.



#### Return to common shareholders

Share price appreciation plus dividends reinvested, 1998 = 100



### Impact of foreign currency translation

The movement in foreign currency exchange rates had a negative effect on the Bank's earnings in 2008. On average, the Canadian dollar appreciated 7% relative to the U.S. dollar, and 5% against the Mexican peso. The Canadian dollar also strengthened against the Jamaican dollar and many other currencies in which the Bank conducts its business. Changes in the average exchange rates affected net income, as shown in Table 4.

We will continue to mitigate the effect of foreign currency translation where it is cost effective to do so. A description of our hedging strategies can be found on page 70.

### Impact of acquisitions

The Bank made a number of acquisitions in 2007 and 2008 which contributed to growth in Canada and in our international operations. The impact on selected income statement categories is shown in Table 5.



#### Total shareholder return

For the years ended October 31	2008	2007	2006	2005	2004	5-yr CAGR <sup>(1)</sup>
Closing market price per common share (\$)	40.19	53.48	49.30	42.99	39.60	4.2%
Dividends paid (\$ per share)	1.92	1.74	1.50	1.32	1.10	18.0%
Dividends paid (%)	3.6	3.5	3.5	3.3	3.4	
Increase (decrease) in share price (%)	(24.9)	8.5	14.7	8.6	21.0	
Total annual shareholder return (%) <sup>(2)</sup>	(21.6)	12.2	18.4	12.1	24.7	7.8%

(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.

**T4**

#### Impact of foreign currency translation

Average exchange rate	2008	2007	2006
U.S. dollar/Canadian dollar	<b>0.974</b>	0.909	0.878
Mexican peso/Canadian dollar	<b>10.473</b>	9.968	9.542

Impact on income (\$ millions except EPS)	2008 vs. 2007	2007 vs. 2006	2006 vs. 2005
Net interest income	\$ (221)	\$ (119)	\$ (202)
Other income	(80)	(80)	(138)
Non-interest expenses	146	77	136
Other items (net of tax)	51	40	51
Net income	\$ (104)	\$ (82)	\$ (153)
Earnings per share (diluted)	\$ (0.10)	\$ (0.08)	\$ (0.15)
Impact by business line (\$ millions)			
International Banking	\$ (83)	\$ (37)	\$ (65)
Scotia Capital	\$ (7)	\$ (19)	\$ (35)
Canadian Banking	\$ (21)	\$ (4)	\$ (8)
Other	\$ 7	\$ (22)	\$ (45)

**T5**

#### Impact of acquisitions<sup>(1)</sup>

(\$ millions except EPS)	2008	2007
Net interest income	\$ 458	\$ 43
Other income	95	4
Non-interest expenses	(270)	(30)
Other items (net of tax)	(116)	(9)
Net income	\$ 167	\$ 8
Earnings per share (diluted)	\$ 0.17	\$ 0.01

- (1) Includes acquisitions made in 2007 and 2008.

## 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. The TEB gross-up to net interest income and to the provision for income taxes for 2008 was \$416 million versus \$531 million in the prior year.

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

### 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 available to common shareholders as a percentage of the capital deployed to earn the income. The Bank calculates its return on equity using average common shareholders' equity, including all components of shareholders' equity.

### Economic equity and return on economic equity

For internal reporting purposes, the Bank allocates capital to its business segments using a methodology that considers credit, market and operational risk inherent in each business segment. The amount allocated is commonly referred to as economic equity.

Return on equity for the business segments is based on the economic equity allocated to the business segments. The difference between the economic equity amount required to support the business segments' operations and the Bank's total equity is reported in the "Other" segment.

### 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 shareholders' equity excluding preferred shares, unrealized gains/losses on available-for-sale securities and cash flow hedges, plus non-controlling interest in subsidiaries, less unamortized goodwill and 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).





Group Financial Performance

Total revenue

Total revenue (on a taxable equivalent basis) was \$12,292 million in 2008, a decrease of \$729 million or 6% from the prior year. The change was due primarily to charges of \$1,221 million relating to certain trading activities and valuation adjustments, reflecting unprecedented volatility in global financial markets. As well, there was a negative impact of \$301 million due to foreign currency translation, compared to \$199 million in 2007, as the Canadian dollar continued to appreciate for much of the year against most currencies in countries in which the Bank operates.

Canadian Banking revenue grew 6% over last year. This increase reflected broad-based growth as well as the impact of the Dundee Bank, Scotia Dealer Advantage (formerly Travelers Leasing Corporation), TradeFreedom, and E\*Trade Canada acquisitions, partially offset by the impact of the gain last year on the global Visa restructuring. International Banking revenues rose 15%, reflecting the impact of the acquisition of Banco del Desarrollo in Chile, as well as strong growth in Peru. In Scotia Capital, revenue declined by 25%, due mainly to charges relating to the Lehman Brothers bankruptcy, valuation adjustments and generally weak capital markets. These were partially offset by record foreign exchange and precious metals trading revenues, and strong growth in corporate lending. Group Treasury was also impacted by the weakening global financial markets, with lower realized gains on the sale of non-trading securities, valuation losses on securities, and relatively higher liquidity costs.

Net interest income

Net interest income (on a taxable equivalent basis) was \$7,990 million in 2008, up \$361 million or 5% over last year, despite a negative impact of \$275 million from adjustments in fair value on derivatives used for asset and liability management purposes, \$221 million from foreign currency translation and \$115 million from lower tax-exempt gross up. Excluding these items, underlying interest income grew by \$972 million as a result of strong asset growth driven by normal business operations and acquisitions.

The growth in average total assets of \$52 billion or 13% was mainly in business and government lending (\$23 billion or 29%) and residential mortgages (\$ 14 billion or 14% after securitization). All business segments contributed to the strong asset growth.

Canadian Banking’s average assets grew by \$22 billion or 14%, primarily in mortgages. There was also strong growth in personal revolving credit and other personal loans, as well as business lending to both commercial and small business customers.

International Banking’s average asset growth of \$13 billion or 20% mainly reflected the impact of the acquisition of Banco del Desarrollo in Chile and strong growth in business lending in Asia and in Peru.

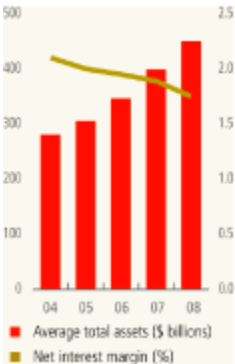
C4 Net interest income by business line

taxable equivalent basis,  
\$ millions



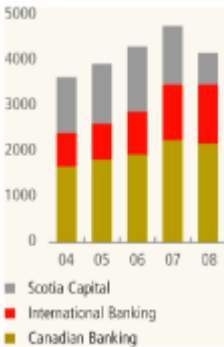
C5 Average total assets and net interest margin

taxable equivalent basis  
(\$ billions) %

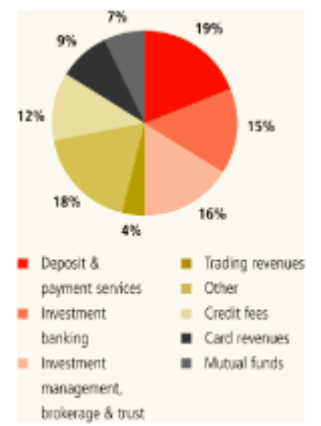


C6 Other income by business line

taxable equivalent basis,  
\$ millions



C7 Many sources of other income<sup>(1)</sup>



(1) Excluding loss on sale of non-trading securities.

Scotia Capital's average assets grew by \$11 billion or 7%, from strong growth in lending in the U.S., Europe and Canada, as well as in trading assets.

The Bank's net interest margin (net interest income as a percentage of average assets) was 1.75% in 2008, down from 1.89% last year. The decline was due primarily to the unfavourable change in the fair value of derivatives used for asset and liability management purposes, lower tax-exempt dividend income, and higher volumes of non-earning assets. Excluding these items, the underlying net interest margin on earning assets remained in line with the prior year. The impact of increased liquidity costs and the shift in Canadian Banking's assets to lower-yielding variable rate mortgages was offset by the strong asset growth in existing businesses and acquisitions in International Banking, both of which have higher margins. Also contributing was the widening of spreads in Scotia Capital's corporate lending business.

## Outlook

The Bank's net interest income is expected to increase in 2009, as we realize the full-year effect of 2008 growth from existing businesses and from acquisitions, as well as the favourable benefit of a weaker Canadian dollar. Asset growth is expected to moderate due to the global economic slowdown. The net interest margin is expected to benefit from the widening of spreads in the corporate lending portfolios, offset by the high liquidity costs in the wholesale funding markets.

## Other income

Other income was \$4,302 million in 2008, a decrease of \$1,090 million or 20% from 2007, including a reduction of \$80 million from foreign currency translation, offset by increased contributions from recent acquisitions. This decrease primarily reflected charges related to certain trading activities and valuation adjustments. In total these charges, included in other income were \$1,059 million in 2008 (see Table 2 on page 25). This compared to a net gain of \$54 million in 2007, as detailed earlier in the Items of note section.

Card revenues were a record \$397 million in 2008, an increase of 8%



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

(\$ millions,  
except percentage amounts)

	2008	2007	2006	2005
Average assets	455,500	403,500	350,700	309,400
Net interest income <sup>(1)</sup>	7,990	7,629	6,848	6,197
Net interest margin	1.75%	1.89%	1.95%	2.00%

(1) Taxable equivalent basis



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

	2008		2007	
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	\$ 29.2	3.71%	\$ 25.4	4.38%
Securities	95.9	5.24	98.0	5.32
Securities purchased under resale agreements	19.7	4.00	25.8	4.87
<b>Loans:</b>				
Residential mortgages	108.9	5.50	95.4	5.47
Personal and credit cards	45.2	8.68	39.9	8.88
Business and government	100.0	5.92	77.3	6.76
	254.1	6.23	212.6	6.58
Total earning assets	398.9	5.70	361.8	5.96
Customers' liability under acceptances	12.2	—	10.8	—
Other assets	44.4	—	30.9	—

Total assets	<b>\$ 455.5</b>	<b>4.99%</b>	\$ 403.5	5.34%
Liabilities and shareholders' equity				
Deposits:				
Personal	<b>\$ 108.9</b>	<b>3.32%</b>	\$ 96.1	3.29%
Business and government	<b>182.4</b>	<b>4.06</b>	154.8	3.98
Banks	<b>30.8</b>	<b>3.63</b>	31.8	4.84
	<b>322.1</b>	<b>3.77</b>	282.7	3.84
Obligations related to securities sold under repurchase agreements	<b>30.6</b>	<b>4.23</b>	30.9	5.15
Subordinated debentures	<b>3.1</b>	<b>5.40</b>	2.1	5.42
Capital instrument liabilities	<b>0.5</b>	<b>7.36</b>	0.8	7.10
Other interest-bearing liabilities	<b>28.1</b>	<b>3.97</b>	31.5	4.21
Total interest-bearing liabilities	<b>384.4</b>	<b>3.84</b>	348.0	4.01
Other liabilities including acceptances	<b>50.7</b>	<b>—</b>	36.3	—
Shareholders' equity	<b>20.4</b>	<b>—</b>	19.2	—
Total liabilities and equity	<b>\$ 455.5</b>	<b>3.24%</b>	\$ 403.5	3.45%
Interest margin		<b>1.75%</b>		1.89%

(1) Average of daily balances.

(2) Refer to the non-GAAP measures on page 27.

## **T8** Trading revenue

Taxable equivalent basis <sup>(1)</sup> For the fiscal years (\$ millions)	<b>2008</b>	2007	2006	2005
Reported in:				
Other income	<b>\$ 188</b>	\$ 450	\$ 637	\$ 594
Net interest income	<b>417</b>	519	394	340
Total trading revenue	<b>\$ 605</b>	\$ 969	\$1,031	\$ 934
By trading products:				
Securities trading	<b>\$ (27)</b>	\$ 65	\$ 145	\$ 175
Foreign exchange and precious metals trading	<b>384</b>	323	301	295
Derivatives trading	<b>248</b>	581	585	464
<b>Total trading revenue</b>	<b>\$ 605</b>	\$ 969	\$1,031	\$ 934
<b>% of total revenues</b> (net interest income plus other income)	<b>5%</b>	7%	9%	9%

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 27.

## Management's Discussion and Analysis

from last year. International card revenues increased 11% due to strong growth in Peru, the Caribbean and Mexico. Canadian revenues were up 6% year over year, due mainly to higher transaction volumes.

Revenues from deposit and payment services, which represent revenues earned from retail, commercial and corporate customers, grew 6% to \$862 million in 2008. Canadian Banking revenues were 3% higher than last year, mainly from new account growth. International revenues increased by 14%, mainly from the acquisition of Banco del Desarrollo in Chile and acquisitions in Peru.

Mutual fund fees were a record \$317 million in 2008, an increase of 7% from 2007. This reflected higher average balances, which grew by 6% in Canada, resulting mainly from net fund sales, particularly in the longer-term funds. International Banking mutual fund fees were 12% higher than last year, mainly in Mexico and Peru.

Revenues from investment management, brokerage and trust services were \$760 million in 2008, in line with last year. Retail brokerage commissions were \$538 million, down 3% from 2007, despite the positive impact of the acquisitions of TradeFreedom and E\*Trade Canada during the year.

Credit fees of \$579 million were \$49 million or 9% higher than last year. There were higher acceptance fees in Canada, from both corporate and commercial customers. In the United States, credit fees were 8% above 2007, reflecting stronger lending volumes. International Banking credit fees increased 15%, due mainly to the acquisition of Banco del Desarrollo in Chile, and strong growth in Peru.

Trading revenues were \$188 million in 2008, a decrease of \$262 million from last year, mainly related to the bankruptcy of Lehman Brothers. In addition, revenue from trading securities fell by \$103 million, reflecting a decline in debt and equity market conditions. Foreign exchange trading was \$17 million above last year, with record revenue in Scotia Capital being partially offset by declines in Group Treasury and International Banking. Precious metals trading revenue was a record \$160 million, an increase of \$44 million or 38% over last year, with higher revenues recorded in each of our major centres.

Investment banking revenues were \$716 million in 2008, a decrease of \$21 million or 3% from last year. Notwithstanding record advisory fees in Scotia Waterous, underwriting fees fell by \$88 million or 23%, due mainly to lower new issue fees. Non-trading foreign exchange revenues were \$75 million or 32% above 2007 due to strong growth in both Canadian and International Banking.

There was a net loss on the sale of non-trading securities of \$374 million in 2008, compared to a net gain of \$488 million last year. The net loss this year was due mainly to valuation adjustments of \$783 million on certain structured credit instruments and securities. These losses arose due mainly to market conditions, including widening credit spreads and credit events in certain previously highly rated reference assets which negatively impacted the fair value of collateralized



### Other income

For the fiscal years (\$ millions)	2008	2007	2006	2005	2004	2008 versus 2007
<b>Card revenues</b>	<b>\$ 397</b>	<b>\$ 366</b>	<b>\$ 307</b>	<b>\$ 251</b>	<b>\$ 231</b>	<b>8%</b>
<b>Deposit and payment services</b>						
Deposit services	675	652	622	581	536	4
Other payment services	187	165	144	120	110	13
	<b>862</b>	<b>817</b>	<b>766</b>	<b>701</b>	<b>646</b>	<b>6</b>
<b>Mutual funds</b>	<b>317</b>	<b>296</b>	<b>241</b>	<b>193</b>	<b>171</b>	<b>7</b>
<b>Investment management, brokerage and trust services</b>						
Retail brokerage	538	553	481	427	335	(3)
Investment management and custody	96	87	70	62	53	11
Personal and corporate trust	126	120	115	111	116	5
	<b>760</b>	<b>760</b>	<b>666</b>	<b>600</b>	<b>504</b>	<b>—</b>

**Credit fees**

Commitment and other credit fees	<b>436</b>	403	414	436	477	<b>8</b>
Acceptance fees	<b>143</b>	127	116	106	106	<b>12</b>
	<b>579</b>	530	530	542	583	<b>9</b>

**Trading revenues**

<b>188</b>	450	637	594	476	<b>(58)</b>
------------	-----	-----	-----	-----	-------------

**Investment banking**

Underwriting fees and other commissions	<b>402</b>	498	453	493	477	<b>(19)</b>
Foreign exchange and other	<b>314</b>	239	206	187	171	<b>32</b>
	<b>716</b>	737	659	680	648	<b>(3)</b>

**Net gain (loss) on securities, other than trading**

<b>(374)</b>	488	371	414	477	<b>N/M</b>
--------------	-----	-----	-----	-----	------------

**Other**

<b>857</b>	948	623	554	584	<b>(10)</b>
------------	-----	-----	-----	-----	-------------

Total other income	<b>\$4,302</b>	\$5,392	\$4,800	\$4,529	\$4,320	<b>(20)%</b>
Percentage increase (decrease) over previous year	<b>(20)%</b>	12%	6%	5%	8%	

---

N/M — not meaningful



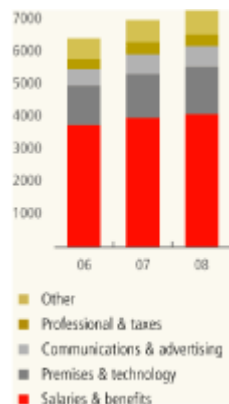
## Non-interest expenses and productivity

For the fiscal years (\$ millions)	2008	2007	2006	2005	2004	2008 versus 2007
<b>Salaries and employee benefits</b>						
Salaries	\$2,549	\$2,315	\$2,100	\$1,963	\$1,933	10%
Performance-based compensation	913	1,017	936	880	817	(10)
Stock-based compensation	89	133	164	140	174	(33)
Pensions and other employee benefits	558	518	568	505	528	8
	4,109	3,983	3,768	3,488	3,452	3
<b>Premises and technology</b>						
Net premises rent	217	197	181	176	170	10
Premises repairs and maintenance	83	75	60	50	46	11
Property taxes	65	65	61	61	58	—
Computer equipment, software and data processing	650	603	549	519	509	8
Depreciation	242	221	192	173	189	10
Other premises costs	194	192	171	169	167	1
	1,451	1,353	1,214	1,148	1,139	7
<b>Communications</b>						
Telecommunications	79	73	68	64	63	7
Stationery, postage and courier	247	227	208	191	185	9
	326	300	276	255	248	8
<b>Advertising and business development</b>						
Advertising and promotion	206	193	126	139	113	6
Travel and business development	114	118	106	93	97	(3)
	320	311	232	232	210	3
<b>Professional</b>	227	227	174	186	163	—
<b>Business and capital taxes</b>						
Business taxes	90	107	98	91	89	(15)
Capital taxes	26	36	35	56	53	(30)
	116	143	133	147	142	(19)
<b>Other</b>						
Employee training	43	53	47	45	43	(18)
Amortization of goodwill and other intangibles	49	46	38	29	27	6
Other	655	578	561	513	438	13
	747	677	646	587	508	10
<b>Total non-interest expenses</b>	<b>\$7,296</b>	<b>\$6,994</b>	<b>\$6,443</b>	<b>\$6,043</b>	<b>\$5,862</b>	<b>4%</b>
<b>Productivity ratio (TEB) <sup>(1)</sup></b>	<b>59.4%</b>	<b>53.7%</b>	<b>55.3%</b>	<b>56.3%</b>	<b>56.9%</b>	

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 27.

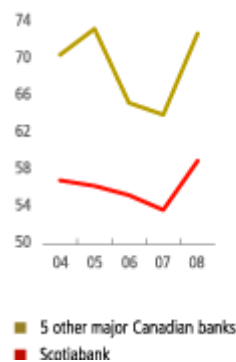
## C8 Expenses well controlled

\$ millions



## C9 Industry-leading productivity

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



(Source: published financial data)

## C10 Direct and indirect taxes

\$ millions



(1) Includes taxable-equivalent adjustment



---

## Management's Discussion and Analysis

debt obligations (CDOs). This included a loss of \$298 million on the purchase of certain CDOs from the Bank's U.S. multi-seller conduit, pursuant to the terms of a liquidity asset purchase agreement. These were partially offset by gains realized on the sale of both debt and equity securities, which were lower than the prior year, reflecting the challenging market conditions.

Other revenues were \$857 million in 2008, a decrease of \$91 million from last year, primarily reflecting the 2007 gains of \$202 million on the global Visa restructuring and \$43 million on the sale of our bond index business. Partly offsetting this decline were higher securitization revenues of \$130 million in 2008, which were \$96 million above last year, largely from wider spreads and a higher volume of mortgage securitizations under the available government program.

### Outlook

The ongoing uncertainty in financial markets is expected to impact several revenue categories; in particular, trading, investment banking and wealth management, and may limit the opportunities to realize gains on non-trading securities. However, we expect increases in most other revenues, due in part to the impact of acquisitions.

### Non-interest expenses

Non-interest expenses were \$7,296 million in 2008, an increase of \$302 million or 4% from last year, including a benefit from the positive impact of foreign currency translation of \$146 million. Recent acquisitions accounted for approximately \$240 million of the growth in non-interest expenses.

Salaries and employee benefits were \$4,109 million in 2008, up \$126 million or 3% from last year, including the favourable impact of \$72 million due to foreign currency translation. Salaries increased 10%, reflecting both acquisitions and new branches, including 13 in Canada and 58 in Mexico, as well as increased staffing to support growth initiatives. Performance-based compensation was \$104 million below last year, reflecting lower results, including Scotia Capital and retail brokerage. Stock-based compensation decreased by \$44 million or 33% due to the decline in the Bank's common share price during the year. Pensions and other employee benefit costs increased by \$40 million or 8%, due in part to acquisitions.

Premises and technology expenses were \$1,451 million in 2008, an increase of \$98 million or 7% from last year. The higher premises costs reflected both acquisitions and new branches. Technology expenses increased by \$47 million or 8%, mainly for a variety of new and ongoing project costs.

Communications expenses of \$326 million rose \$26 million or 8% year over year, reflecting the impact of acquisitions, business volume growth and new branches.

Advertising and business development expenses were \$320 million in 2008, an increase of \$9 million or 3% over last year, due mainly to the impact of acquisitions.

Business and capital taxes were \$27 million or 19% lower than last year, reflecting reductions to capital tax rates in Canada and lower income.

Other expenses were \$747 million in 2008, an increase of \$70 million or 11% from last year, due largely to the impact of acquisitions and higher loyalty reward point costs.

Our productivity ratio – a measure of efficiency in the banking industry – was 59.4% for the year. The ratio deteriorated from 53.7% last year, due mainly to the impact of the items of note discussed earlier, as total revenue fell 6% while expenses increased 4%.

### Outlook

Expense control is a key strength of the Bank, and will be an area of even greater focus. Expenses are expected to increase in 2009, reflecting the full-year impact of acquisitions and growth initiatives undertaken in 2008, as well as the unfavourable impact of foreign exchange translation due to the weaker Canadian dollar. We will balance expense control with selective investments in new products and services. We expect the productivity ratio to be below 58%.

### Non-controlling interest

The deduction for non-controlling interest in subsidiaries was \$119 million in 2008, in line with last year.

### Taxes

The provision for income taxes recorded in income was \$691 million in 2008, a decrease of 35% compared to last year. This is due primarily to the 24% decline in pre-tax income and a drop of 2.1% in the statutory effective tax rate year over year. The Bank's

overall effective tax rate for the year was 17.5%, down from 20.3% last year.

Outlook

The Bank’s consolidated effective tax rate for 2009 is expected to remain within the range of the past few years.

Credit quality

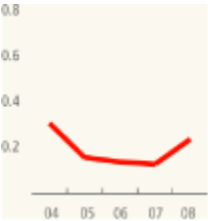
Provision for credit losses

The provision for credit losses was \$630 million in 2008, up from \$270 million last year.

The provision for credit losses in Canadian Banking was \$399 million in 2008, an increase of \$104 million compared to last year. This was due to higher provisions in both the commercial and retail portfolios. The former related primarily to a small number of accounts compared to a very low level of provisions in 2007. The increase in retail provisions related mainly to asset growth in Scotia Dealer Advantage and the credit card portfolios, partially offset by higher recoveries in other personal loans.



specific provisions as a % of average loans & acceptances





## Impaired loans by business line

	2008			Gross impaired loans			
As at October 31 (\$ millions)	Net	Allowance for credit losses	Gross	2007	2006	2005	2004
Canadian							
Retail	\$ 243	\$ (280)	\$ 523	\$ 391	\$ 374	\$ 311	\$ 267
Commercial	111	(127)	238	197	263	201	170
	354	(407)	761	588	637	512	437
International							
Mexico	(4)	(220)	216	188	213	190	223
Caribbean and Central America	409	(151)	560	397	375	369	324
Latin America	346	(455)	801	285	357	101	114
Asia and Europe	3	(29)	32	27	35	72	137
	754	(855)	1,609	897	980	732	798
Scotia Capital							
Canada	—	—	—	18	18	25	52
United States	80	(27)	107	11	119	331	701
Europe	3	(14)	17	30	116	220	212
	83	(41)	124	59	253	576	965
Gross impaired loans			2,494	1,544	1,870	1,820	2,200
Specific allowance for credit losses		(1,303)		(943)	(1,300)	(1,139)	(1,321)
Net impaired loans <sup>(1)</sup>	\$ 1,191			\$ 601	\$ 570	\$ 681	\$ 879
General allowance for credit losses	(1,323)			(1,298)	(1,307)	(1,330)	(1,375)
Net impaired loans after general allowance	\$ (132)			\$ (697)	\$ (737)	\$ (649)	\$ (496)
Gross impaired loans as a % of total allowance for credit losses and shareholders' equity	10.3%			7.3%	9.3%	9.8%	12.4%
Net impaired loans <sup>(1)</sup> as a % of loans and acceptances	0.40%			0.25%	0.27%	0.38%	0.55%
Specific allowance for credit losses as a % of gross impaired loans	52%			61%	70%	63%	60%

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



## Specific provisions for credit losses by business line

For the fiscal years (\$ millions)	2008	2007	2006	2005	2004
<b>Canadian</b>					
Retail	\$ 316	\$ 274	\$ 229	\$ 225	\$ 207
Commercial	83	21	50	49	110
	399	295	279	274	317
<b>International</b>					

Mexico	141	68	27	34	6
Caribbean and Central America	89	48	15	23	63
Latin America	—	(11)	14	15	(12)
Asia and Europe	6	(4)	4	(2)	13
	236	101	60	70	70
<b>Scotia Capital</b>					
Canada	(11)	—	(6)	(12)	(15)
United States	16	(91)	(41)	(93)	54
Europe	(10)	(10)	(16)	34	67
	(5)	(101)	(63)	(71)	106
Other	—	—	—	2	(3)
<b>Total</b>	<b>\$ 630</b>	<b>\$ 295</b>	<b>\$ 276</b>	<b>\$ 275</b>	<b>\$ 490</b>

### **T13** Provisions for credit losses as a percentage of average loans and acceptances

For the fiscal years (%)	2008	2007	2006	2005	2004
<b>Canadian</b>					
Retail	0.22%	0.22%	0.20%	0.22%	0.23%
Commercial	0.31	0.09	0.22	0.23	0.53
	0.23	0.19	0.20	0.22	0.28
International	0.44	0.25	0.18	0.25	0.26
Scotia Capital <sup>(1)</sup>	(0.01)	(0.33)	(0.25)	(0.31)	0.42
Weighted subtotal – specific provisions	0.24	0.13	0.14	0.16	0.31
General provision	—	(0.01)	(0.03)	(0.02)	(0.05)
<b>Weighted total</b>	<b>0.24%</b>	<b>0.12%</b>	<b>0.11%</b>	<b>0.13%</b>	<b>0.25%</b>

(1) Corporate banking only.

---

## Management's Discussion and Analysis

In International Banking, the provision for credit losses was \$236 million in 2008, an increase of \$135 million compared to last year. Retail portfolios in Mexico, Peru, the Caribbean and, to a lesser extent, Chile, recorded increased provisions for credit losses, mainly related to growth in lending portfolios, acquisitions, and rising delinquency in certain markets. The International commercial portfolio continued to benefit from similar levels of net reversals and recoveries as last year.

Scotia Capital had net recoveries of \$5 million in 2008 versus net recoveries of \$101 million in 2007.

There was no reduction of the general allowance in the Consolidated Statement of Income in 2008, compared to a reduction of \$25 million in 2007.

### Impaired loans

Net impaired loans, after deducting the specific allowance for credit losses, were \$1,191 million at October 31, 2008, an increase of \$590 million from a year ago. Impaired loans in Canadian Banking increased \$173 million, due primarily to asset growth in Scotia Dealer Advantage but also reflecting a softening in the Canadian economy.

Impaired loans in International Banking were up \$712 million due to asset growth (including our acquisitions in Chile and Peru in the higher margin consumer finance segments) and rising delinquencies in Mexico and the Caribbean.

Scotia Capital's impaired loans increased \$65 million due primarily to two accounts. However, there were declines in impaired loans in the European and Canadian portfolios.

As shown in Chart 12, net impaired loans as a percentage of loans and acceptances were 0.40% as at October 31, 2008, compared to 0.25% a year ago.

### General allowance for credit losses

The general allowance for credit losses as at October 31, 2008, was \$1,323 million, an increase of \$25 million from a year ago, resulting from the consolidation of Banco del Desarrollo in Chile during 2008.

### Portfolio review

#### Corporate and commercial

Scotia Capital's credit performance remained relatively stable year over year. The change in specific provisions was attributable to much lower levels of reversals in 2008 compared to 2007, and to new provisions primarily on two accounts. Gross impaired loans in Scotia Capital's U.S. portfolio increased by \$96 million year over year to \$107 million, due primarily to one account. Gross impaired loans declined in Europe by \$13 million to \$17 million, and fell in Canada from \$18 million to nil over the same period. Recoveries in 2008 were primarily in the Canadian and U.S. portfolios.

The credit quality of the Canadian commercial loan portfolio declined slightly from the favourable conditions existing in 2007. Gross impaired loans increased by \$41 million to \$238 million, while provisions for credit losses rose by \$62 million from last year, attributable primarily to several commercial accounts, as well as from growth in small business banking.

In International commercial banking, gross impaired loans were \$776 million, an increase of \$305 million or 65% compared to the prior year as a result of less favourable economic conditions and the acquisition in Chile. Partly offsetting were net provision reversals of \$83 million in 2008 versus \$65 million in 2007. Net reversals continued to be concentrated in Peru and Mexico.

#### Canadian retail

The overall credit quality of the consumer portfolio in Canada continues to be relatively stable, with reportable delinquency increasing by one basis point year over year to 1.35%. The provision for credit losses in the Canadian retail portfolio was \$316 million, up \$42 million or 15% from last year, in line with portfolio growth of 14%. The provision for credit losses as a percentage of average loans was unchanged from last year at 0.22%, in line with previous years.

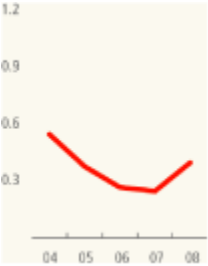
While gross impaired loans in the retail portfolio increased by 34% (\$132 million) from last year, portfolio quality continues to benefit from high levels of security, with 91% of retail loans being secured by an underlying asset such as a house or an auto. This high level of security reflects the growth in Scotia Total Equity Plan lending, where all products, even lines of credit and credit cards, are secured by

**C12** Net impaired loan ratio

**C13** Gross impaired loans and acceptances

**C14** Low delinquency in Canadian retail portfolio

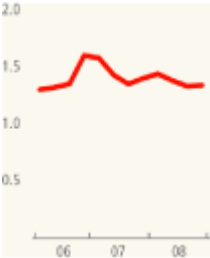
as a % of loans & acceptances,  
as at October 31



as a % of equity & allowances,  
for credit losses



delinquent loans as a % of total loans



residential real estate. Currently, 64% of the ScotiaLine line of credit and ScotiaLine Visa portfolios are secured.

#### International retail

Credit quality has declined compared to last year as a result of weakening economic conditions across Latin America and the Caribbean. Gross impaired loans increased by \$407 million to \$833 million, and provisions for credit losses increased to \$319 million from \$166 million last year, due in part to acquisitions. Total reported delinquency increased 109 basis points year over year to 6.42%, primarily in the credit card and personal loan portfolios in the Caribbean region and Mexico. Changes in asset mix from acquisitions also impacted delinquency rates.

#### Risk diversification

The Bank's exposures to various countries and types of borrowers are well diversified. (See Charts 15 and 16 below, and Tables 39 and 44 on pages 83 and 85). Chart 15 shows loans and acceptances by geography. Ontario represents the largest Canadian exposure, at 36% of the total. Outside of Canada, Latin America has the largest concentration, with 8% of the total, followed by the United States at 7%.

Chart 16 shows loans and acceptances by type of borrower. Excluding loans to households, the largest concentrations were in: financial services, 9.7%; wholesale and retail, 5.1%; and real estate and construction, 4.6%.

The Bank actively monitors industry concentrations. As noted last year, the North American automotive industry, forestry and building materials sectors are being closely managed. As is the case with all industry concentrations, the Bank continues to closely follow developing trends and takes additional steps to mitigate risk as warranted.

#### Risk mitigation

To mitigate exposures in its performing corporate portfolios, the Bank uses loan sales and credit derivatives. In 2008, loan sales totaled \$185 million, compared to \$320 million in 2007. The telecommunications and health industries had the largest volume of loan sales in 2008.

At October 31, 2008, credit derivatives used to mitigate exposures in the portfolios totalled \$942 million (notional amount), compared to \$1,089 million at October 31, 2007. The industries with significant protection purchased include the financial services and oil and gas sectors.

The current annualized cost (excluding mark-to-market adjustments) of the credit derivatives outstanding at October 31, 2008, used to mitigate exposures in the loan portfolios, was \$2.4 million (\$5.2 million in 2007).

#### Outlook

The provision for credit losses is expected to increase in 2009 in all business lines, primarily as a result of the weaker global economy, normal business growth, the full-year impact of acquisitions, and lower recoveries. However, the provision is expected to remain well within our risk tolerances.

#### Fourth quarter review

Net income was \$315 million in the fourth quarter, a decrease of \$639 million or 67% from the same quarter last year, and \$695 million below last quarter. The decline reflected \$642 million in after-tax charges this quarter related to certain trading activities and valuation adjustments, arising from recent challenging market conditions and unprecedented volatility in global financial markets. These charges are included in the Items of note discussed earlier.

Total revenue (on a taxable equivalent basis) was \$2,586 million in the fourth quarter, a decrease of \$708 million or 21% from the same quarter last year, notwithstanding a positive foreign currency translation impact of \$46 million. Quarter over quarter, total revenue fell by \$891 million or 26%, despite a positive foreign currency translation impact of \$17 million.

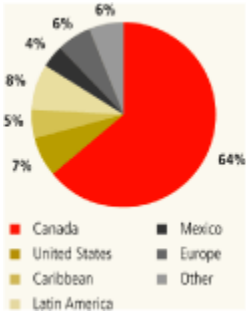
Net interest income (on a taxable equivalent basis) was \$2,036 million in the fourth quarter, an increase of \$104 million or 5% over the same quarter last year, but \$13 million below the third quarter. There was a positive impact of foreign currency translation of \$70 million over the same quarter last year, and \$40 million compared to the third quarter.

The increase in net interest income from the same quarter last year reflected solid growth in average assets of \$72 billion or 18%. Canadian residential mortgages grew by \$12 billion or 11%. In Scotia Capital, assets grew by \$19 billion, comprising increases in corporate lending and capital markets. International Banking average assets grew by \$23 billion or 35%, reflecting both acquisitions and growth in the Bank's existing operations.

The Bank’s net interest margin was 1.68% in the fourth quarter, a decrease of 19 basis points from last year, due to

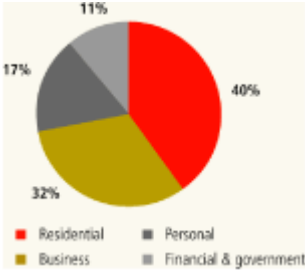
**C15** Well diversified in Canada and internationally...

loans & acceptances, excl. reverse repos, September 2008



**C16** ...and in household and business lending

loans & acceptances, excl. reverse repos, September 2008





---

## Management's Discussion and Analysis

the negative impact of the change in fair value of financial instruments used for asset/liability management purposes, and lower tax-exempt dividend income.

The Bank's net interest margin narrowed by 11 basis points versus last quarter. This is driven entirely by the negative impact of the change in fair value of financial instruments and higher volumes of non-earning assets. This more than offset the impact of widening margins throughout Latin America and wider spreads in corporate lending.

Other income was \$550 million in the fourth quarter, a decrease of \$812 million from the same quarter last year, including a negative foreign currency translation impact of \$24 million. This was mainly due to the charges noted previously. As well, the same quarter last year included the \$202 million gain on the global Visa restructuring and a \$43 million gain on the sale of our bond index business. Partially offsetting these items were record foreign exchange and precious metals trading revenues in Scotia Capital, the impact of acquisitions, and higher revenues from securitizations, credit fees, and various retail products and services.

Quarter over quarter, other income fell by \$878 million, due mainly to the charges noted above. There were also declines in trading securities revenue, underwriting revenue, credit fees, and mutual fund fees due to poor market conditions, as well as a negative foreign currency translation impact of \$23 million. Partially offsetting these decreases were record foreign exchange and precious metals trading revenues in Scotia Capital, and higher securitization and non-trading foreign exchange revenues.

The provision for credit losses was \$207 million this quarter, up \$112 million from the same period last year and \$48 million from last quarter. The higher level this quarter compared to a year ago was due to higher provisions in the retail portfolios in International Banking, increased provisions in Canadian Banking, and lower reversals and recoveries in Scotia Capital this year.

The provision for credit losses was \$107 million in the Canadian Banking portfolios, up from \$78 million in the same quarter last year and \$99 million in the previous quarter. Both increases were due mainly to higher provisions in the commercial portfolio. In the retail portfolio, higher provisions attributable to asset growth and increased provisions for Scotia Dealer Advantage were largely offset by higher recoveries in other personal loans.

International Banking's provision for credit losses was \$90 million in the fourth quarter, compared to \$27 million in the same period last year, and \$56 million last quarter. The increases were due primarily to higher retail provisions related to asset growth, acquisitions and rising delinquencies in certain markets. In addition, commercial provisions increased from last year due to acquisitions, and from last quarter due to lower recoveries this quarter.

Scotia Capital's provision for credit losses was \$10 million in the fourth quarter, compared to net recoveries of \$10 million in the fourth quarter of last year and a provision of \$4 million in the previous quarter. The increase from the previous quarter was related primarily to one new provision in the U.S., and to lower levels of reversal and recoveries.

Total net impaired loans, after deducting the allowance for specific credit losses, were \$1,191 million as at October 31, 2008, an increase of \$182 million from last quarter. The general allowance for credit losses was \$1,323 million as at October 31, 2008, unchanged from last quarter.

Non-interest expenses were \$1,944 million in the fourth quarter, an increase of \$152 million or 8% over the same quarter last year, including an unfavourable impact of \$47 million from foreign currency translation. Recent acquisitions accounted for approximately \$103 million of the growth in non-interest expenses. The increases in salaries, premises, technology and communications also reflected new branches in Canada and Mexico. These increases were partially offset by declines in performance-related compensation, professional fees and capital taxes.

Quarter over quarter, non-interest expenses rose \$55 million, including an unfavourable impact of \$31 million from foreign currency translation. Recent acquisitions accounted for approximately \$50 million of the growth in non-interest expenses. Advertising expenses rose, due primarily to new initiatives to drive revenue growth. Partially offsetting these increases were declines in performance-related compensation and capital taxes.

The Bank's effective tax rate was 0.6% in the fourth quarter, compared to 17.1% in the same quarter last year and 21.7% in the previous quarter. These declines were due mainly to lower income resulting from certain trading activities and valuation adjustments, which were in higher tax jurisdictions.

## Summary of quarterly results

The Bank's results in each quarter this year were lower than those in the corresponding quarters of 2007. These reductions mainly resulted from charges related to certain trading activities and valuation adjustments. In addition, the strengthening of the Canadian dollar for most of the year negatively impacted the translation of foreign currencies. The underlying quarterly results continued to show strong asset growth across all business lines and a positive impact from acquisitions. The interest margin trended lower as the negative impact of higher liquidity costs and changes in product mix in Canadian Banking was partially offset by wider lending

spreads in Scotia Capital and growth in higher-margin businesses in International Banking. Other income was mainly affected by weaker trading results, valuation adjustments, and lower underlying investment gains. The trend in loan losses reflected acquisitions and lower recoveries compared to comparable quarters last year. An eight quarter trend in net income and other selected information is provided on page 93.

## Management's Discussion and Analysis



### Group Financial Condition

#### Balance sheet

##### Assets

The Bank's total assets at October 31, 2008, were \$508 billion, up \$96 billion or 23% from last year, including a \$38 billion positive impact from foreign currency translation from the weaker Canadian dollar at the end of the year. Retail, commercial and corporate loans grew by \$62 billion, and derivative instrument assets were up \$23 billion, with a corresponding increase in derivative instrument liabilities.

##### Securities

Total securities declined slightly by \$1 billion from last year, including a \$7 billion positive impact from foreign currency translation. Trading securities declined \$11 billion, due primarily to a reduction in the size of the equity securities portfolio. There was an increase in available-for-sale securities of \$10 billion, primarily from higher holdings of Canadian and foreign government debt securities. In the fourth quarter, there was a reclassification of \$394 million of certain trading securities to available-for-sale securities, as a result of amendments to accounting standards issued in October 2008 (refer to page 82, Reclassification of financial assets).

As at October 31, 2008, the unrealized loss on available-for-sale securities was \$1,228 million, compared to a \$972 million unrealized gain in the prior year. This includes unrealized losses of \$36 million that arose subsequent to the August 1, 2008, reclassification of certain bonds and preferred shares from the trading portfolio to the available-for-sale portfolio. The total unrealized loss was largely the result of the ongoing deterioration of economic conditions and volatility in debt and equity markets. A breakdown of the unrealized loss on available-for-sale securities is shown in Table 57 on page 92. Debt securities account for 78% of the unrealized loss.

##### Loans

The Bank's loan portfolio grew \$62 billion or 27% from last year, including the positive impact of \$18 billion from foreign currency translation. On the retail lending side, residential mortgage growth in Canadian Banking was \$13 billion, before securitization of \$5 billion. In addition, International Banking contributed \$5 billion to this growth. Personal loans were up \$9 billion, or 22% from last year, with strong growth in all regions.

Business and government loans increased \$40 billion from last year. Loans in Scotia Capital were up \$17 billion, primarily in corporate lending. Canadian Banking experienced growth of \$4 billion. In International Banking, business and government loans increased \$18 billion, primarily from the acquisition of Banco del Desarrollo, which contributed \$3 billion, and growth in Asia and the



#### Condensed balance sheet

As at October 31 (\$ billions)	2008	2007	2006	2005	2004
<b>Assets</b>					
Cash resources	\$ 37.3	\$ 29.2	\$ 23.4	\$ 20.5	\$ 17.1
Securities	88.0	88.8	95.5	73.5	58.8
Securities purchased under resale agreements	19.5	22.5	25.7	20.6	17.9
Loans	288.7	227.2	202.8	170.4	153.9
Other	74.1	43.8	31.6	29.0	31.5
<b>Total assets</b>	<b>\$ 507.6</b>	<b>\$ 411.5</b>	<b>\$ 379.0</b>	<b>\$ 314.0</b>	<b>\$ 279.2</b>

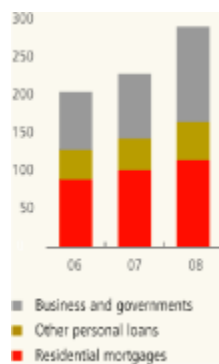
## Liabilities and shareholders' equity

Deposits	\$ 346.6	\$ 288.5	\$ 263.9	\$ 217.4	\$ 195.2
Obligations related to securities sold under repurchase agreements	36.5	28.1	33.5	26.0	19.4
Other liabilities	98.0	73.9	61.0	51.1	44.7
Subordinated debentures	4.4	1.7	2.3	2.6	2.6
Capital instrument liabilities	0.5	0.5	0.8	0.8	2.3
Total liabilities	\$ 486.0	\$ 392.7	\$ 361.5	\$ 297.9	\$ 264.2
Shareholders' equity	\$ 21.6	\$ 18.8	\$ 17.5	\$ 16.1	\$ 15.0
Total liabilities and shareholders' equity	\$ 507.6	\$ 411.5	\$ 379.0	\$ 314.0	\$ 279.2

C17

### Loan portfolio

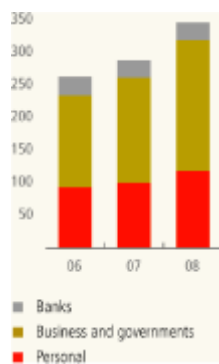
loans & acceptances, \$ billions



C18

### Deposits

\$ billions



---

## Management's Discussion and Analysis

Caribbean of \$7 billion and \$4 billion, respectively.

### Liabilities

Total liabilities were \$486 billion as at October 31, 2008, an increase of \$93 billion or 24% from last year, including a \$39 billion impact from foreign currency translation. Deposits grew by \$58 billion, obligations related to repurchase agreements were up \$8 billion, and derivative instruments liabilities were up \$18 billion. The latter increase was similar to the change in the derivative instruments assets and due primarily to recent changes and volatility in interest and foreign exchange rates and credit spreads.

### Deposits

Total deposits grew \$58 billion or 20% from last year, including a \$26 billion positive impact from foreign currency translation. Personal deposits increased by \$18 billion, led by \$5 billion of growth in Canadian Banking personal GICs. International deposits increased \$5 billion, with increases across most regions. Business and government deposits were up \$39 billion, primarily to fund the Bank's strong asset growth.

### Shareholders' equity

Total shareholders' equity increased \$3 billion in 2008, due primarily to internal capital generation of \$1 billion, the issuance of \$1 billion of non-cumulative preferred shares, and an increase of \$261 million in accumulated other comprehensive income. The increase in unrealized foreign exchange gains relating to the Bank's foreign operations, due to the weakening of the Canadian dollar, was mostly offset by higher unrealized losses on other components of comprehensive income, including those related to available-for-sale securities.

### Outlook

Asset growth in all business lines is expected to moderate, in line with slower global economic growth. The ongoing volatility in equity and debt markets will continue to impact assets and liabilities carried at fair value, including trading and available-for-sale securities.

## Capital management

### Overview

Scotiabank is committed to maintaining a solid capital base to support the risks associated with its diversified businesses. Strength in capital management contributes to safety for the Bank's customers, fosters investor confidence and supports high 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 risk and achieve strategic objectives. Key components of the Bank's ICAAP include sound corporate governance; establishing risk-based capital targets; managing and monitoring capital, both currently and prospectively; and utilizing appropriate financial metrics which relate risk to capital.

### Governance and oversight

The Bank has a prudent 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 co-ordinated approach to implementing the Bank's capital plan.

### Risk appetite

The Board-approved Capital Management Policy includes a Risk Appetite Statement that establishes enterprise-wide risk tolerances in addition to capital targets. The statement 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 to the risk profile of the Bank, maintain strong credit ratings and provide the Bank's shareholders with acceptable returns.

## Managing and monitoring capital

Capital is managed and monitored based on planned changes in the Bank's business or strategy, identified changes in its operating environment, and consequential 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, as well as various expected scenarios. Specific scenarios are selected based on the current economic conditions and business events facing the Bank to determine the capital impact of these events. In addition, the Bank's forward-looking capital adequacy assessment includes consideration of the results of enterprise-wide stress testing. Stress testing is used to determine the extent to which plausible but extreme 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 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 our shareholders.

## 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-sell 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, 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 OSFI 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.

### Basel II

Effective November 1, 2007, regulatory capital ratios are determined in accordance with the revised capital framework, based on the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, commonly known as Basel II. Changes to the computation of regulatory capital from the previous framework (Basel I) are primarily the amount and categorization of prescribed inclusions and deductions from capital, such as the calculation of the eligible allowance deduction and the deduction for specified corporations (such as insurance entities and associated corporations), which is now split between two categories of capital.

Under Basel II, 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 calculation of credit risk regulatory capital and application of this approach could result in less regulatory capital than the use of the alternative approaches. Once banks demonstrate full compliance with the AIRB requirements, and OSFI has approved its use, they may proceed to apply the AIRB approach in computing capital requirements.

The Bank received approval, with conditions, from OSFI to use AIRB for material Canadian, U.S. and European portfolios effective November 1, 2007. The Bank is assessing the remaining portfolios for application of AIRB in the future. The Bank will use the Standardized Approach for these portfolios. As well, the Bank is using the Standardized Approach to calculate the operational risk capital requirements. Capital requirements for market risk were substantially unchanged. However during 2008, the Basel Committee has proposed some changes to the Basel II market risk framework, in response to concerns arising from significant losses in bank trading books in the current volatile market conditions. The most significant change is the introduction of an incremental risk charge to market risk capital calculations that would capture price changes due to defaults as well as other sources of price risk, such as those reflecting credit migrations and significant changes in credit spreads and equity prices. The Committee expects to finalize the changes in the coming months, with implementation to be phased in by 2011. The changes could lead to an increase in market risk regulatory capital, the impact of which can be estimated once the guidelines are finalized.

In order to limit sudden declines in the capital levels for the industry in aggregate, transitional capital floors were introduced for the first two years after full implementation of AIRB: a minimum capital floor of 90% of the Basel I calculation will apply in the first

**C19** Tier 1 capital

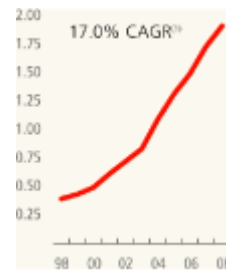
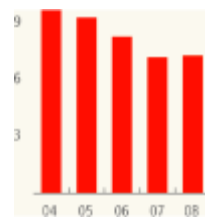
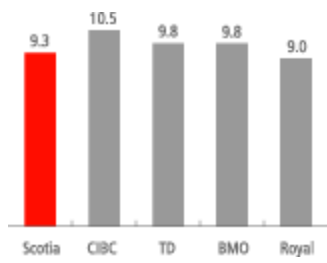
% October 31, 2008

**C20** Scotiabank's tangible common equity

% October 31

**C21** Dividend growth

dollars per share



(1) Compound annual growth rate (CAGR)



## Management's Discussion and Analysis

**T15**

### Regulatory capital<sup>(1)</sup>

As at October 31 (\$ millions)	Basel II 2008	2007	2006	Basel I 2005	2004
<b>Tier 1 capital</b>					
Common shareholders' equity <sup>(2)</sup>	\$20,197	\$16,477	\$16,947	\$15,482	\$14,685
Innovative capital instruments	2,750	2,750	3,000	2,250	2,250
Non-cumulative preferred shares	2,860	1,635	600	600	300
Non-controlling interest in subsidiaries	502	497	435	306	280
Less: Goodwill	(2,273)	(1,134)	(873)	(498)	(261)
Other capital deductions <sup>(3)</sup>	(773)	—	—	—	—
	<b>23,263</b>	<b>20,225</b>	<b>20,109</b>	<b>18,140</b>	<b>17,254</b>
<b>Tier 2 capital</b>					
Subordinated debentures <sup>(4)</sup>	4,227	1,452	2,046	2,420	2,493
Trust subordinated notes	1,000	1,000	—	—	—
Eligible amounts of general allowance <sup>(5)</sup>	534	1,298	1,307	1,330	1,317
Net unrealized equity gains <sup>(6)</sup>	—	298	—	—	—
	<b>5,761</b>	<b>4,048</b>	<b>3,353</b>	<b>3,750</b>	<b>3,810</b>
Less: other capital deductions <sup>(7)</sup>	(1,177)	(1,292)	(476)	(358)	(200)
Total capital	<b>\$27,847</b>	<b>\$22,981</b>	<b>\$22,986</b>	<b>\$21,532</b>	<b>\$20,864</b>
<b>Risk-weighted assets<sup>(1)</sup></b>					
(\$ billions)					
Credit risk	214.5	208.3	192.0	159.5	147.6
Market risk	15.5	10.0	5.0	3.3	2.9
Operational risk	20.6	—	—	—	—
Total risk-weighted assets	<b>\$ 250.6</b>	<b>\$ 218.3</b>	<b>\$ 197.0</b>	<b>\$ 162.8</b>	<b>\$ 150.5</b>
<b>Capital ratios<sup>(1)</sup></b>					
Tier 1 capital ratio	9.3%	9.3%	10.2%	11.1%	11.5%
Total capital ratio	11.1%	10.5%	11.7%	13.2%	13.9%
Assets to capital multiple	18.0	18.2	17.1	15.1	13.8

- (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) Beginning in 2007, balance excludes unrealized gains and losses on available-for-sale securities and cash flow hedges.
- (3) Composed of net after-tax gains on sale of securitized assets, net after-tax losses on available-for-sale equity securities, 50/50 deduction of certain investments in associated corporations 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) Composed 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)	Basel II 2008	2007	2006	Basel I 2005	2004
Total capital, beginning of year	<b>\$22,981</b>	\$22,986	\$21,532	\$20,864	\$20,408
Internally generated capital					
Net income	<b>3,140</b>	4,045	3,579	3,209	2,908
Preferred and common share dividends	<b>(2,003)</b>	(1,771)	(1,513)	(1,342)	(1,126)
	<b>1,137</b>	2,274	2,066	1,867	1,782
External financing					
Subordinated debentures <sup>(2)</sup>	<b>2,775</b>	(594)	(374)	(73)	(102)
Trust subordinated notes	—	1,000	—	—	—
Preferred shares	<b>1,225</b>	1,035	—	300	—
Innovative capital instruments	—	(250)	750	—	(250)
Common shares and contributed surplus	<b>263</b>	141	108	88	88
Purchase of shares premium on redemption	<b>(37)</b>	(586)	(324)	(973)	(290)
	<b>4,226</b>	746	160	(658)	(554)
Other					
Net after-tax unrealized equity gains/losses <sup>(3)</sup>	<b>(493)</b>	298	—	—	—
Net unrealized foreign exchange translation gains (losses)	<b>2,368</b>	(2,228)	(360)	(178)	(709)
Non-controlling interest in subsidiaries	<b>5</b>	62	129	26	(46)
Other <sup>(4)</sup>	<b>(2,377)</b>	(1,157)	(541)	(389)	(17)
	<b>(497)</b>	(3,025)	(772)	(541)	(772)
Total capital generated (used)	<b>4,866</b>	(5)	1,454	668	456
Total capital, end of year	<b>\$27,847</b>	\$22,981	\$22,986	\$21,532	\$20,864

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

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



### Selected capital management activity

(\$ millions)	2008	2007	2006
Dividends			
Common	1,896	1,720	1,483
Preferred	107	51	30
Common shares issued <sup>(1)(2)</sup>	266	184	135
Repurchase of common shares — normal course issuer bid <sup>(2)</sup>	(40)	(629)	(350)
Preferred shares issued <sup>(2)</sup>	1,225	1,035	—
Subordinated debentures issued <sup>(3)</sup>	3,144	—	—
Repurchase and redemption of subordinated debentures <sup>(3)</sup>	(691)	(500)	(300)
Redemption of capital instrument liabilities <sup>(4)</sup>	—	(250)	—
Issuance of trust subordinated notes and trust securities <sup>(4)</sup>	—	1,000	750

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

(2) For further details, refer to Note 14 of the consolidated financial statements.

(3) For further details, refer to Note 12 of the consolidated financial statements.

(4) For further details, refer to Note 13 of the consolidated financial statements.

year of full approval, and 80% in the second year. The Bank received approval to apply the 90% floor in the second quarter.

#### Tier 1 capital

Tier 1 capital consists primarily of common shareholders' equity (excluding unrealized gains on available-for-sale securities and cash flow hedges), non-cumulative preferred shares and innovative structures such as trust securities. Tier 1 capital rose to \$23.3 billion, an increase of \$3.0 billion over last year as a result of:

- growth in retained earnings of \$1.1 billion;
- the issuance of \$1.2 billion in non-cumulative preferred shares; and
- cumulative unrealized foreign currency translation gains of \$2.4 billion, net of hedges and related taxes, due to the weakening of the Canadian dollar, mainly against the U.S. dollar.

These increases were partially offset by:

- the increase in goodwill deduction of \$1.1 billion, resulting primarily from the acquisition of Banco Del Desarrollo;
- new capital deductions of \$0.6 billion for gains on securitizations and a 50% deduction for the Bank's investments in associated companies made after January 1, 2007; and
- net after-tax unrealized losses of \$0.2 billion on available-for-sale equity securities reported in OCI, which are a deduction from Tier 1 capital.

Over the past five years, the Bank has created \$9.2 billion of internally generated capital, despite raising dividends by 123% during this period. This level of internal capital generation has remained strong among Canadian banks.

#### Tier 2 capital

Tier 2 capital consists mainly of subordinated debentures and the eligible allowances for credit losses. Tier 2 capital increased by \$1.8 billion in 2008, due primarily to the issuance of \$3.1 billion of subordinated debentures, partially offset by a planned early redemption of subordinated debentures of \$425 million, and a decrease of \$765 million in the amount of the general allowance eligible for inclusion in capital under Basel II.

#### Risk-weighted assets

Under Basel II, the computation of risk-weighted assets was revised to more closely align risk weight parameters with the individual risk profile of banks by introducing substantive changes to prescribed risk weights for credit risk exposures, including the use of internally derived credit risk parameters, and introducing an explicit new risk weight for operational risk.

Risk-weighted assets increased by \$32 billion over the prior year to \$251 billion, primarily from a combination of growth initiatives, acquisitions and foreign exchange translation, offset by lower and more risk-sensitive requirements under the new Basel II approach.

#### Regulatory capital ratios

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 those capital components by risk-weighted assets (as calculated under the Basel II methodology).

In 2008, both of the Bank's regulatory capital ratios remained strong. The Tier 1 and the Total capital ratios as at year end were 9.3% and 11.1%. These ratios continued to exceed OSFI's formal target levels of 7% and 10% as a result of prudent capital management and consistent earnings growth, driven by a disciplined increase in risk-weighted assets. The current year's ratios have benefited from:

- net increases in regulatory capital through the issuance of preferred shares and subordinated debentures (net of redemptions) in 2008; and
- the unrealized gains from foreign currency translation, which were partially offset by increases in goodwill and reductions in eligible provisions under Basel II.

The increases in capital were offset by the growth in risk-weighted assets, resulting from the growth in underlying businesses, and by Tier 1 capital deductions related to losses on available-for-sale securities.

In addition to the regulatory capital ratios, banks are also subject to a maximum leverage test, the assets-to-capital multiple (ACM). 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. The Bank was in compliance with this threshold for all the reported periods.

### Tangible common equity ratio

The level of tangible common equity (TCE) is generally considered to be one of the most important measures 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. Tangible common equity is total shareholders' equity (excluding preferred shares, unrealized gains/losses on available-for-sale securities and cash flow hedges) plus non-controlling interest in subsidiaries, less unamortized goodwill and intangible assets (net of taxes).

The TCE ratio is calculated by dividing tangible common equity by risk-weighted assets. At year end, the Bank's TCE ratio was 7.3%, 10 basis points higher than the 2007 level. Scotiabank's TCE ratio continued to be strong relative to the other major Canadian and international banks.

### Economic capital

Economic capital is a measure of the unexpected losses inherent in the Bank's business activities. Management assesses its risk profile to determine those risks for which the Bank should attribute economic capital. The major risk categories assigned economic capital are:

- *Credit risk* 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 corporate/commercial loans and derivatives, 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.

## Management's Discussion and Analysis

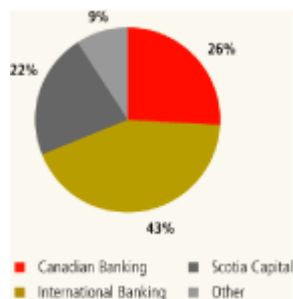
- *Market risk* is the risk that the Bank's financial condition will vary because of changes in market conditions. Exposure is measured based on the internal VaR models used in the trading book; the VaR on the Bank's structural interest rate risk, structural foreign exchange risk, and equity market risk; and embedded options risk.
- *Operational risk* 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.
- *Other risk* includes additional risks for which capital is attributed, such as business risk, strategic risk, insurance risk and real estate risk.

The Bank attributes economic capital to each of these risks. In addition, the Bank uses its economic capital framework to attribute capital to the business lines (refer to non-GAAP measures, page 27). Chart 22 shows the attribution of economic capital by business line. This allows us 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, including exposures pertinent to the current market turmoil, refer to the Risk Management section.

### **C22** Total economic capital by business line

as at October 31, 2008



## Dividends

Our record of strong earnings growth and our capital position allowed us to increase our quarterly dividend 4 cents in 2008. On a year-over-year basis, dividends rose by 10% to \$1.92 per share, and have risen at a compound annual rate of 17% over the past 10 years. The dividend payout ratio for 2008 was 62%, up from 43% last year.

## Share buyback program

In the second quarter of 2008, the Bank renewed its normal course issuer bid to purchase up to 20 million of the Bank's common shares. This represented approximately 2% of the Bank's common shares outstanding as at December 31, 2007. During fiscal 2008, the Bank purchased 875,000 common shares at an average cost of \$45.61 per share.

## Share data

The Bank's common and preferred share data, as well as trust securities, are shown in Table 18. Further details, including exchangeability features, are discussed in notes 13 and 14 of the consolidated financial statements.

## Credit ratings

The Bank continues to have strong credit ratings. The current ratings are AA by DBRS, Aa1 by Moody's and AA- by Standard & Poor's.

## Outlook

Scotiabank has and will maintain a strong capital position. We have been proactive in raising capital, and will continue to do so in 2009, to support our growth initiatives and make selective acquisitions.

Off-balance sheet arrangements

In the normal course of business, the Bank enters into contractual arrangements 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

Off-balance sheet arrangements with VIEs include:

- VIEs that are used to provide a wide range of services to customers. These services include VIEs established to allow clients to securitize their financial assets while facilitating cost-efficient financing, and also to provide investment opportunities. In addition, the Bank creates, administers and manages personal and corporate trusts on behalf of its customers. The Bank also sponsors and actively manages mutual funds.

Financial stability forum disclosures

In April 2008, the Financial Stability Forum, based on the request of G-7 ministers and central bank governors, released its report on recent conditions in the credit market. Among others, a key recommendation of the report was to improve transparency by providing enhanced risk disclosures on financial instruments that markets consider to be higher risk, including off-balance sheet vehicles and structured products. Based on these recommendations, the Bank has provided additional disclosures as follows:

Variable interest entities	p. 42
Mortgage-backed securities	p. 48
Montreal Accord Asset-Backed Commercial Paper (ABCP)	p. 48
Collateralized debt obligations and collateralized loan obligations	p. 48
Structured investment vehicles	p. 49
Exposure to monoline insurers	p. 49
Exposure to Alt-A	p. 49
Leveraged loans	p. 49
Auction-rate securities	p. 49
Automotive industry exposure	p. 49
Consumer auto-based securities	p. 50

As at October 31

Number of Shares (000s)

Common shares	991,924 <sup>(1)</sup>
Preferred shares Series 12	12,000 <sup>(2)</sup>
Preferred shares Series 13	12,000 <sup>(3)</sup>
Preferred shares Series 14	13,800 <sup>(4)</sup>
Preferred shares Series 15	13,800 <sup>(5)</sup>
Preferred shares Series 16	13,800 <sup>(6)</sup>
Preferred shares Series 17	9,200 <sup>(7)</sup>
Preferred shares Series 18	13,800 <sup>(8)(9)</sup>
Preferred shares Series 20	14,000 <sup>(8)(10)</sup>
Preferred shares Series 22	12,000 <sup>(8)(11)</sup>
Series 2000-1 trust securities issued by BNS Capital Trust	500 <sup>(12)</sup>
Series 2002-1 trust securities issued by Scotiabank Capital Trust	750 <sup>(13)</sup>
Series 2003-1 trust securities issued by Scotiabank Capital Trust	750 <sup>(13)</sup>
Series 2006-1 trust securities issued by Scotiabank Capital Trust	750 <sup>(13)</sup>
Scotiabank Trust Subordinated Notes — Series A issued by Scotiabank Subordinated Notes Trust	1,000 <sup>(13)</sup>
Outstanding options granted under the Stock Option Plans to purchase common shares	23,123 <sup>(1)(14)</sup>

- (1) As at November 19, 2008, the number of outstanding common shares and options were 991,954 and 23,072, respectively. The number of other securities disclosed in this table were unchanged.
- (2) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of \$0.328125 per share.
- (3) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of \$0.30 per share.
- (4) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of \$0.28125 per share.
- (5) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of \$0.28125 per share.
- (6) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of \$0.328125 per share except for the initial dividend paid on January 29, 2008, which was in an amount of \$0.39195 per share.
- (7) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of \$0.35 per share except for the initial dividend paid on April 28, 2008, which was in an amount of \$0.33753 per share.
- (8) These preferred shares have conversion features.
- (9) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. The initial dividend was paid on July 29, 2008, in an amount of \$0.4315 per share. Dividends, if and when declared, during the initial five-year period ending on April 25, 2013, will be payable in an amount of \$0.3125 per share. 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
- (10) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. The initial dividend was paid on July 29, 2008, in an amount of \$0.1678 per share. Dividends, if and when declared, during the initial five-year period ending on October 25, 2013, will be payable in an amount of \$0.3125 per share. 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
- (11) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. The initial dividend, if and when declared will be payable on January 28, 2009, in an amount of \$0.4829 per share. Dividends, if and when declared, during the initial five-year period ending on January 25, 2014, will be payable in an amount of \$0.3125 per share. 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

- (12) Reported in capital instrument liabilities in the Consolidated Balance Sheet.
- (13) Reported in deposits in the Consolidated Balance Sheet.
- (14) Included are 16,293 stock options with tandem stock appreciation right (SAR) features.

- VIEs that are used to provide alternative sources of funding to the Bank and 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, as well as accounting, related party, reputational and ownership issues, 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, 2008, total consolidated assets related to VIEs were \$5.8 billion, compared to \$6.1 billion at end of 2007. The amounts owed by or to the consolidated VIEs were not significant. The Bank earned fees of \$72 million and \$65 million in 2008 and 2007, respectively, from certain VIEs in which it has 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

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

As at October 31 (\$ millions)	2008			2007		
	Funded assets <sup>(1)</sup>	Unfunded commitments	Total exposure <sup>(2)</sup>	Funded assets <sup>(1)</sup>	Unfunded commitments	Total exposure <sup>(2)</sup>
Auto loans/leases	\$2,204	\$299	\$2,503	\$4,506	\$531	\$5,037
Equipment loans	969	63	1,032	1,227	79	1,306
Trade receivables	205	91	296	251	45	296
Canadian residential mortgages	89	2	91	113	2	115
Retirement savings plan loans	156	3	159	291	6	297
Loans to closed-end mutual funds	161	91	252	209	167	376
Total <sup>(3)</sup>	\$3,784	\$549	\$4,333	\$6,597	\$830	\$7,427

(1) Funded assets are reflected at original cost.

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

(3) These assets are substantially sourced from Canada.



## Management's Discussion and Analysis

by VIE category, is provided below and in Note 6 to the consolidated financial statements on page 120.

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

- multi-seller conduits sponsored by the Bank,
- liquidity facilities provided to non-Bank sponsored conduits, and
- funding vehicles.

### Multi-seller conduits sponsored by the Bank

The Bank sponsors three multi-seller conduits, two of which are Canadian-based and one in the United States. The Bank earns commercial paper issuance fees, program management fees, liquidity fees and other fees from these multi-seller conduits, which totalled \$70 million in 2008, compared to \$56 million in the prior year.

The multi-seller conduits purchase high-quality financial assets, primarily from clients, and finance these assets through the issuance of highly rated commercial paper (CP). 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.

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 to ensure it is not required to consolidate the assets and liabilities of the conduit.

### Canada

The Bank's primary exposure to the Canadian-based conduits is the liquidity support provided, with total liquidity facilities of \$4.3 billion as at October 31, 2008 (October 31, 2007 — \$7.4 billion). A substantial reduction in auto loans/leases in 2008 caused the year-over-year decline. As of October 31, 2008, total commercial paper outstanding for the Canadian-based conduits administered by the Bank was \$3.8 billion (October 31, 2007 — \$6.7 billion). At year end, the Bank held approximately 6% of the total commercial paper issued by these conduits. Table 19 presents a summary of assets held by the Bank's two Canadian multi-seller conduits as at October 31, 2008 and 2007, 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 24% of the funded assets were externally rated AAA as at October 31, 2008, with the balance having an equivalent rating of AA- or higher based on the Bank's internal rating program. There are no non-investment grade rated assets held in these conduits. The funded assets have a weighted average repayment period of approximately 1.1 years, with 69% maturing within three years. There is no exposure to U.S. subprime mortgage risk within these two conduits.

### United States

The Bank's primary exposure to the U.S.-based conduit is the liquidity support and program-wide credit enhancement provided, with total liquidity facilities of \$12.8 billion as at October 31, 2008 (October 31, 2007 — \$12.7 billion). Excluding the impact of foreign currency translation, total exposure declined \$2.7 billion year over year. As at October 31, 2008, total commercial paper outstanding for the U.S.-based conduit administered by the Bank was \$8.4 billion (October 31, 2007 — \$7.9 billion). At year end, the Bank did not hold any commercial paper issued by this conduit.

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 an asset purchase agreement. Program-wide credit enhancement is generally equal to 10% of the assets purchased or committed to be purchased by the conduit. This is available to absorb a portion of the

## Assets held by Scotiabank-sponsored U.S.-based multi-seller conduits

As at October 31 (\$ millions)	2008			2007		
	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	\$1,318	\$ 641	\$ 1,959	\$1,172	\$ 513	\$ 1,685

Auto loans/leases	2,894	1,160	4,054	2,774	1,462	4,236
Trade receivables	2,161	1,855	4,016	1,434	1,832	3,266
Loans to closed-end mutual funds	690	652	1,342	940	350	1,290
Diversified asset-backed securities	932	19	951	787	42	829
CDOs/CLOs	—	—	—	372	—	372
Mortgage-backed securities	—	—	—	114	536	650
Corporate loans <sup>(3)</sup>	417	50	467	260	111	371
Total <sup>(4)</sup>	<b>\$8,412</b>	<b>\$4,377</b>	<b>\$12,789</b>	<b>\$7,853</b>	<b>\$4,846</b>	<b>\$12,699</b>

(1) Funded assets are reflected at original cost.

(2) Exposure to the Bank is through program-wide credit enhancement and global-style liquidity facilities.

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

(4) These assets are sourced from the U.S.

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. In the fourth quarter, in line with current market practices, the Bank revised its liquidity agreements with the conduit such that the Bank will 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 U.S. multi-seller conduit as at October 31, 2008 and 2007, by underlying exposure.

As at October 31, 2008, approximately 92% of the conduit's funded assets are rated A or higher, either externally (16%) or based on the Bank's internal rating program (76%). There are no non-investment grade assets held in this conduit. The funded assets have a weighted average repayment period of approximately 1.4 years, with 75% maturing within five years.

The conduit has investments in two pools of diversified asset-backed securities. These pools are guaranteed by monoline insurers (refer to Exposure to monoline insurers on page 49) and are rated investment grade based on the Bank's internal rating program. The assets underlying these securities are primarily retail loans, including U.S. home equity, student loans and residential mortgage-backed securities. Exposure to U.S. subprime mortgage risk within these securities was nominal at approximately \$28 million as at October 31, 2008.

On April 30, 2007, the Bank's U.S. multi-seller commercial paper conduit issued a subordinated note to an unrelated party that absorbs the majority of the expected losses. It was determined that the Bank was no longer the primary beneficiary and, as a result, the VIE was no longer recorded in the Bank's Consolidated Balance Sheet as at April 30, 2007. On the date of deconsolidation, this resulted in a decrease to both available-for-sale securities and other liabilities of \$7 billion, and a net increase in guarantees and other indirect commitments of \$8 billion.

In 2008, the conduit transferred CDO and CLO assets to the Bank, pursuant to the terms of its liquidity asset purchase agreements. A pre-tax charge of \$298 million, after considering recoveries, was recorded during the year to the Consolidated Statement of Income. This represents the difference between the amounts paid (original cost of the assets) and the fair value of the assets on the dates the assets were transferred to the Bank. The pre-tax charge comprised \$53 million for an asset transferred in the second quarter and \$245 million for assets transferred in the fourth quarter of 2008. After the transfer of the above assets, the conduit no longer has any direct holding of structured CDO/CLO exposures. In addition, the Bank, as the liquidity provider to the conduit, does not intend to allow the conduit to purchase such asset types in the future.

During the year, as a consequence of each transfer of assets to the Bank, the conduit increased its note issued to an unrelated party. This note continues to absorb the majority of the expected losses of the remaining assets of the conduit, as updated for current market conditions. Upon the increase of the note, it was determined that the Bank was not the primary beneficiary, and therefore does not consolidate the conduit.

The Bank does not consider the transfer of assets from the conduit to the Bank to be an indicator of the Bank's intent to provide support to the note holder. Realized losses from these assets, if any, will be allocated to the note holder in accordance with the provisions of the note. The Bank has no plans to remove any assets from the conduit unless required to do so in its role as administrator, pursuant to the liquidity asset purchase agreements (LAPA). In the future, if any asset transfer occurs pursuant to the terms of the LAPA, the Bank would continue to allocate losses on such assets to the note holder.

#### Liquidity facilities provided to non-Bank sponsored conduits

For conduits not administered by the Bank, liquidity facilities totaled \$1.2 billion as at October 31, 2008 (October 31, 2007 — \$2.4 billion), of which \$1.2 billion (October 31, 2007 — \$1.8 billion) were for U.S. third-party conduits and none (October 31, 2007 — \$570 million) were for Canadian third-party conduits. The assets of these non-Bank sponsored conduits, which are not administered by the Bank, are almost entirely consumer auto-based securities. Approximately 91% of these assets are externally rated AAA, with the balance of the assets rated investment grade, based on the Bank's internal rating program. The majority of the liquidity facilities have an original committed term of 364 days, renewable at the option of the Bank. The weighted average life of the underlying assets of these conduits is approximately two years. There is no exposure to U.S. subprime mortgage risk.

#### Funding vehicles

The Bank uses special purpose entities (SPEs) to facilitate the cost-efficient financing of its operations. The Bank has two such SPEs — Scotiabank Capital Trust and Scotiabank Subordinated Notes Trust — that are VIEs and are not consolidated on the Bank's balance sheet, as the Bank is not the primary beneficiary. The Scotiabank Trust 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 and Scotiabank Subordinated Notes Trust are reported in deposits. Total deposits recorded by the Bank as at October 31, 2008 from these trusts were \$3.4 billion (October 31, 2007 — \$3.4 billion). The Bank recorded interest expense of \$199 million on these deposits in 2008 (2007 — \$143 million).

---

## Management's Discussion and Analysis

### 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 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 (this is discussed further in Note 1 to the consolidated financial statements on page 113). 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 with respect 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 \$12.8 billion as at October 31, 2008, compared to \$11.6 billion last year. The change in 2008 was primarily from ongoing sales through the CMB program and the Bank's participation in the new Government of Canada initiative (Insured Mortgage Purchase Program). This initiative was implemented to enhance term liquidity in the Canadian financial markets, and the Bank sold \$1.5 billion of mortgage-backed securities pursuant to this program. The amount of off-balance sheet securitized personal loans was \$235 million as at October 31, 2008, compared to \$414 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 23 to the consolidated financial statements on pages 137 to 139.

The Bank recorded securitization revenues of \$130 million in 2008, compared to \$34 million in 2007. This change was due to the Bank's ongoing sale of mortgages to the CMB program and the Bank's participation in the Insured Mortgage Purchase Program discussed above.

Additional information on the amount of securitizations and associated cash flows, servicing fees and retained interests is provided in Note 4(b) to the consolidated financial statements on page 118. Table 21 on page 47 summarizes the Bank's on-balance sheet investments in mortgage-backed securities and other asset-backed securities, as well as the liquidity facilities extended to Bank-sponsored and non-Bank sponsored third-party asset-backed commercial paper conduits.

### 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, 2008, these amounted to \$27.8 billion, compared to \$18.4 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 growth reflects a general increase in customer business, as well as the strengthening of the U.S. dollar.
- Liquidity facilities: These generally provide an alternate source of funding to asset-backed commercial paper conduits in the event that 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, 2008, these credit enhancements amounted to \$1,269 million, compared to \$1,187 million last year. Refer to the liquidity discussions under VIEs on page 42.
- Indemnification contracts: In the ordinary course of business, the Bank enters into many contracts where the Bank may indemnify contract counterparties for certain aspects of the Bank's past conduct if other parties fail to perform, 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, 2008, these commitments amounted to \$130 billion, compared to \$114 billion a year earlier. The majority of these commitments are short-term in nature, with original maturities of less than one year. The year-over-year increase reflects a general increase in the customer business as well as the strengthening of the U.S. dollar.

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 above 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 in credit fees in Other income in the Consolidated Statement of Income, were \$240 million in 2008, compared to \$213 million in the prior year. Detailed information on guarantees and loan commitments is disclosed in Note 23 to the consolidated financial statements on pages 137 and 139.

## 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.

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

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. These gains and losses are recorded in the Consolidated Statement of Income when realized, in the case of available-for-sale securities, or when the hedged item affects income, in the case of cash flow hedges.

The Bank's accounting policies for derivatives and hedging activities are further described in Note 1 to the consolidated financial statements (see pages 111 to 115). Interest income and expense on interest-bearing financial instruments are recorded in the Bank's Consolidated Statement of Income as part of net interest income. Credit losses resulting from loans are recorded in the provision for credit losses. In addition to net gains and losses on trading securities, realized gains and losses and writedowns to fair value for other-than-temporary impairment for available-for-sale securities and equity account investments are recorded in other income.

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 and techniques. A discussion of the Bank's risk management policies and practices can be found in the Risk Management section (see pages 62 to 76). In addition, Note 24 to the consolidated financial statements on page 139 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 basis point increase in interest rates on annual income and the economic value of shareholders' equity, as described on page 146. For trading activities, the table on page 147 discloses the average one-day Value at Risk by risk factor. For derivatives, based on the Bank's maturity profile of derivative instruments, only 15% (2007 — 14%) had a term to maturity greater than five years.

Note 27 to the consolidated financial statements (see pages 149 to 153) 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 are provided in Note 25 to the consolidated financial statements (see page 148) along with a description of how these amounts were determined.

The fair value of the Bank's financial instruments was lower than their carrying value by \$543 million as at October 31, 2008 (October 31, 2007 — \$791 million). This difference relates to loan assets, deposit liabilities, subordinated debentures and capital instrument liabilities. The year-over-year change in the excess of fair value over book value arose mainly from changes in interest rates and credit spreads. Fair value estimates are based on market conditions at October 31, 2008, 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 (see pages 77 to 81).

Disclosures specific to certain financial instruments designated as held for trading under the fair value option can be found in Note 26 to the consolidated financial statements (see page 149). 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.

During the year certain trading assets were reclassified to available-for-sale securities (refer to Reclassification of financial assets on page 82).

	As at October 31, 2008		As at October 31, 2007	
Carrying value (\$ millions)	Non-trading portfolio	Trading portfolio	Non-trading portfolio	Trading portfolio
Canadian NHA mortgage-backed securities <sup>(1)</sup>	\$6,294	\$184	\$4,435	\$517
Commercial mortgage-backed securities	123 <sup>(2)</sup>	47 <sup>(3)</sup>	110 <sup>(2)</sup>	38 <sup>(3)</sup>
Other residential mortgage-backed securities	55	—	5	—
Total	\$6,472	\$231	\$4,550	\$555

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



---

## Management's Discussion and Analysis

### Selected credit instruments

#### Mortgage-backed securities

##### Non-trading portfolio

Total mortgage-backed securities held as available-for-sale securities represent approximately 1% of the Bank's total assets as at October 31, 2008 and are shown in Table 21 on page 47. Exposure to U.S. subprime mortgage risk 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, 2008 and are shown in Table 21 on page 47.

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

The fair value of Montreal Accord ABCP held by the Bank as at October 31, 2008 was \$144 million (October 31, 2007 — \$187 million). These securities are currently subject to a restructuring which, if successful, will result in converting these holdings into longer-dated securities. The Bank's ABCP carrying value represents approximately 62% of par value. In valuing these securities, the Bank considers the nature of the underlying assets, the impact of current credit spreads on the value of similar structured asset-type exposure and other market factors. Net writedowns relating to ABCP recorded this year were \$44 million (2007 — \$20 million).

As part of the proposed restructuring plan, the Bank will participate in a margin funding facility, which is similar to an unfunded loan commitment.

#### 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 which are primarily classified as available-for-sale securities. 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. These investments are carried at fair value on the Bank's Consolidated Balance Sheet. Changes in the fair value of cash-based CDOs/CLOs are reflected in Other Comprehensive Income, unless there has been an other-than-temporary decline in fair value, which is recorded in net income. Changes in the fair value of synthetic CDOs/CLOs are reflected in net income. Substantially all of the referenced assets of the Bank's CDO and CLO investments are corporate exposures, with no U.S. mortgage-backed securities.

As at October 31, 2008, the remaining exposure to CDOs was \$420 million (October 31, 2007 — \$565 million), of which \$83 million is included in Accumulated Other Comprehensive Income (AOCI). This portfolio is well diversified, with an average individual CDO holding of \$13 million, and no single industry exceeding 21% of the referenced portfolio on a weighted average basis. Based on their carrying values, these CDOs have a weighted average rating of AA. More than 18% of their investments are senior tranches with subordination of 10% or more, and 17% of the investments are in equity tranches. During the year, the Bank recorded a pre-tax loss of \$516 million in net income (2007 — \$35 million) and a pre-tax loss of \$76 million in Other Comprehensive Income (2007 — \$7 million), reflecting changes in the fair value of the CDOs. The decline in fair value of CDOs was driven by the widening of credit spreads, coupled with recent credit events in certain previously highly rated reference assets.

As at October 31, 2008, the fair value of the Bank's investments in CLOs was \$660 million (October 31, 2007 — \$675 million), net of \$436 million recorded in AOCI. This portfolio is well diversified with an average individual CLO holding of \$6 million and no single industry exceeding 12% of the referenced portfolio on a weighted average basis. These CLOs are primarily investment grade and have a weighted average rating of AA. More than 94% of these investment holdings are senior tranches with subordination of 10% or more. Only 2% of the investments are in equity tranches. During the year, the Bank recorded a pre-tax loss of \$35 million in net income (2007 — \$3 million) and a pre-tax loss of \$432 million in Other Comprehensive Income (2007 — \$4 million), reflecting changes in the fair value of the CLOs. The above movements in fair value relating to CLOs reflect changes in asset prices arising mainly from liquidity challenges and some change in underlying credit quality of the loans. Although these investments have experienced a decline in fair value, the Bank has the ability and intent to hold these securities until there is a recovery in fair value, which may be at maturity. These unrealized losses are considered temporary in nature.

The key drivers of the change in fair value of CDOs and CLOs are changes in credit spreads and the remaining levels of subordination. Based on positions held at October 31, 2008, a 50 basis point widening of relevant credit spreads would result in a pre-tax decrease of approximately \$12 million in



## Collateralized debt obligations (CDOs)

### Trading portfolio

	As at October 31, 2008		As at October 31, 2007	
	Notional Amount	Positive/ (negative) fair value	Notional Amount	Positive/ (negative) fair value
Outstanding (\$ millions)				
CDOs — sold protection	\$6,647	\$(3,368)	\$4,003	\$(216)
CDOs — purchased protection	\$6,550	\$ 3,187	\$3,025	\$ 74

income and \$21 million in Other Comprehensive 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. Total CDOs purchased and sold in the trading portfolio are shown in Table 22 on page 48.

To hedge the net 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/CDSs is changes in credit spreads. Based on positions held at October 31, 2008, a 50 basis point widening of relevant credit spreads in this portfolio would result in a pre-tax increase of approximately \$3 million in income.

More than 79% of these CDO exposures are investment grade equivalent. Substantially all of the Bank's credit exposure to CDO swap counterparties is to entities which are externally or internally rated the equivalent of A- or better.

The referenced assets underlying the trading book CDOs are substantially all corporate exposures, with no mortgage-backed securities.

#### Structured investment vehicles

As at October 31, 2008, the carrying value of the Bank's investments in structured investment vehicles (SIVs) was nil (October 31, 2007 — \$125 million). The reduction resulted from a combination of writeoffs and asset value exchanges during the year. The Bank does not sponsor, manage or provide liquidity support to SIVs.

#### Exposure to monoline insurers

The Bank has insignificant direct exposure to monoline insurers. The Bank has indirect exposures of \$2.8 billion (October 31, 2007 — \$4.0 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. The Bank's public finance exposures of \$1.5 billion (October 31, 2007 — \$2.9 billion) are primarily to U.S. municipalities and states. The securities related to these facilities are primarily rated investment grade without the guarantee, and represent risk the Bank would take without the availability of the guarantee. More than 81% of these securities are rated A or above.

Other indirect exposures to monoline insurers were \$1.3 billion (October 31, 2007 — \$1.1 billion). These exposures are primarily composed of \$0.9 billion (October 31, 2007 — \$0.8 billion) of guarantees by the monolines on diversified asset-backed securities held by the Bank's U.S. multi-seller conduit (as discussed on page 44 in the section on Multi-seller conduits sponsored by the Bank). The two monoline insurers providing these guarantees are currently externally rated investment grade. Without these guarantees, certain of the underlying assets of the diversified asset-backed securities would not be rated investment grade.

In the second quarter of 2008, the Bank replaced the credit default protection previously provided by an insurance monoline with protection from another swap counterparty. The Bank incurred a net cumulative counterparty loss of \$48 million relating to this insurance monoline.

#### Exposure to Alt-A

In the U.S., loans are classified as Alt-A when they have higher risk characteristics such as lower credit scores and/or higher loan-to-value ratios. As at October 31, 2008, the Bank had insignificant direct and indirect exposure to U.S. Alt-A loans and securities. In Canada, the Bank does not have a mortgage program which it considers to be an equivalent of U.S. Alt-A.

#### Leveraged loans

The Bank may provide leveraged financing to non-investment grade customers to facilitate their buyout, acquisition and restructuring activities.

The Bank's exposure to highly leveraged loans awaiting syndication as at October 31, 2008, was nominal.

#### Auction-rate securities

Auction-rate securities (ARS) are long-term, variable rate notes issued by trusts referenced to long-term notional

maturity, but have interest rates reset at predetermined short-term intervals. ARS are issued by municipalities, student loan authorities and other sponsors through auctions managed by financial institutions. The Bank does not sponsor any ARS program and does not hold any ARS.

Automotive industry exposure

The Bank’s direct (corporate and commercial) loan exposure to the North American and European automotive industry as at October 31, 2008, comprised the following:

(\$ billions)	
Original equipment manufacturers (OEM)	\$0.5
Financing and leasing	1.2
Parts manufacturers	0.7
Dealers	2.8
Total	\$5.2

Approximately 63% of this exposure is rated investment grade, either externally or based on the Bank’s internal rating program, and loans are typically senior in the capital structure of the borrowers. The loss ratio — loan losses as a percentage of average loan exposures — on this portfolio was 9 basis points in 2008, unchanged from 2007.

The Bank is actively managing its exposure to this sector. Regular stress tests are performed on this exposure, covering a number of different scenarios, including the potential default of a North American OEM. In addition, the Bank has focused on large multi-dealer relationships and parts manufacturing customers with geographic and OEM diversity, and has lowered its exposure to North American OEMs.

---

## Management's Discussion and Analysis

### Consumer auto-based securities

The Bank holds \$7.8 billion (October 31, 2007 — \$6.2 billion) of consumer auto-based securities which are classified as available-for-sale. Of the year-over-year growth, half arose from foreign currency translation. These securities are almost all loan-based securities, with only 2% of these holdings representing leases. The loan-based securities arise from retail instalment sales contracts (loans) which are primarily acquired through a US\$6 billion revolving facility to purchase U.S. and Canadian consumer auto loans from a North American automotive finance company. This facility has a remaining revolving period of approximately two years, and was recently modified to allow the seller to sell Canadian-based loans to the Bank for a limited period rather than U.S.-based loans. The facility is structured with credit enhancement in the form of over collateralization provided at the time of the loan purchases, resulting in no further reliance on the seller for credit enhancement. For each subsequent purchase under the revolving credit facility, the credit enhancement is a multiple of the most recent pool loss data for the seller's overall managed portfolio.

The Bank conducts periodic stress tests on the loan-based securities. Under different stress scenarios, the loss on this U.S. consumer auto loan-backed securities portfolio is within the Bank's risk tolerance. Approximately 80% of these securities are externally rated AAA and have a weighted average life of approximately two years.

These securities are carried at fair value with the change in fair value recorded in Other Comprehensive Income. The Bank has recorded a pre-tax cumulative unrealized loss of \$272 million in Accumulated Other Comprehensive Income (October 31, 2007 — unrealized gain of \$40 million). While there has been some deterioration in credit quality, the unrealized loss was primarily attributable to wider credit spreads. As the Bank has the ability and intent to hold these securities until there is a recovery in fair value, which may be at maturity, these unrealized losses are considered temporary in nature.

In addition, the Bank provides liquidity facilities to its own sponsored multi-seller conduits and to non-bank sponsored conduits to support automotive loan and lease assets held by those conduits. For details, see sections on Multi-seller conduits sponsored by the Bank (page 44) and Liquidity facilities provided to non-bank sponsored conduits (page 45).

## Management's Discussion and Analysis



### Business Line Overview

#### Canadian Banking

Canadian Banking had a strong year, with net income of \$1,724 million, a 10% increase over last year. Prior year results included a gain of \$92 million (net of applicable taxes) from the global Visa restructuring. Excluding this gain, underlying net income growth was \$252 million or 17%. Substantial growth in retail mortgages, and strong growth in personal lending and deposits was partially offset by a narrowing interest margin. Non-interest expenses were well controlled, while provisions for credit losses rose, due to retail asset growth and higher commercial provisions.

#### International Banking

International Banking reported net income of \$1,186 million, a decrease of 5% from last year. Strong asset growth from existing businesses and contributions from acquisitions added to earnings. However, results were negatively impacted by valuation adjustments and the effect of foreign currency translation. As well, 2007 included a \$71 million (after-tax) gain from the global Visa restructuring. Provisions for credit losses rose due to retail asset growth, acquisitions, and rising delinquency in certain markets.

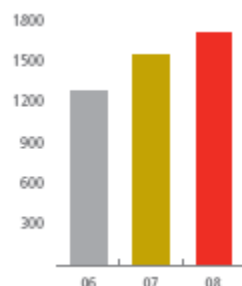
#### Scotia Capital

Scotia Capital had a difficult year, as net income fell 30% to \$787 million in 2008. This resulted primarily from charges relating to certain trading activities and valuation adjustments due to market volatility. As well, interest and loan loss recoveries declined from last year. These were partly offset by strong loan growth and record results in Scotia Waterous M&A and precious metals, fixed income and foreign exchange trading.



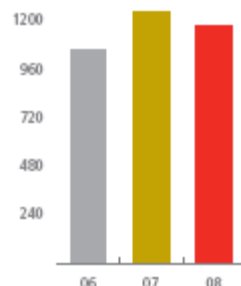
#### Canadian Banking Net Income

Net income (\$ millions)



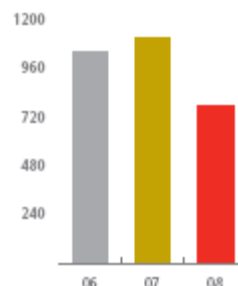
#### International Banking Net Income

Net income (\$ millions)



#### Scotia Capital Net Income

Net income (\$ millions)



#### 2008 financial performance

(\$ millions)	Canadian Banking	International Banking	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income <sup>(2)</sup>	\$ 4,324	\$ 3,315	\$ 1,120	\$(1,185)	\$ 7,574
Other income	2,174	1,282	707	139	4,302
Provision for credit losses	(399)	(236)	5	—	(630)
Non-interest expenses	(3,632)	(2,634)	(937)	(93)	(7,296)

Income taxes/non-controlling interest <sup>(2)</sup>	(743)	(541)	(108)	582	(810)
Net income	\$ 1,724	\$ 1,186	\$ 787	\$ (557)	\$ 3,140
Return on equity <sup>(3)</sup> (%)	35.6%	15.5%	21.5%	N/A	16.7%
Attributed equity <sup>(3)</sup>	\$ 4,764	\$ 7,353	\$ 3,571	\$ 2,530	\$18,218
Average earning assets (\$ billions) <sup>(3)</sup>	\$ 175	\$ 79	\$ 141	\$ 17	\$ 412

(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 27.

(3) Non-GAAP measure. See non-GAAP measures on page 27.

N/A Not applicable

## Management's Discussion and Analysis



### 2008 Achievements

- We are continuing to build our Wealth Management business:
  - We signed an agreement to purchase a 38% interest in CI Financial Income Fund, one of Canada's leading asset managers.
  - We doubled our Canadian online brokerage footprint through the purchase of top-ranked E\*Trade Canada.
- We are creating innovative new products and services:
  - Building on our partnership with the NHL, we launched the ScotiaHockey™ VISA card, along with the ScotiaHockey Rewards™ program.
  - We introduced the Bank the Rest program, a first of its kind savings program in Canada that helps customers save every time they use their Scotiabank debit card.
- We are working to expand and assist our small business customer base:
  - We introduced a ScotiaGold Passport for business VISA card that enables small business customers to keep their business and personal spending separate, and at the same time earn valuable reward points.
  - Scotiabank's small business specialists crossed the country in a specially equipped RV, communicating the unique tools, resources and advice that we offer to help owners grow their businesses.
- We are acquiring new customers and building brand awareness:
  - We continued to expand our distribution network in high-growth markets, opening 13 new branches and adding 171 customer-facing sales staff.
  - We partnered with The Western Union Company to offer international money transfer services to Scotiabank customers.

### 2009 Priorities

- Focus on our key market segments.
- Ensure positive operating leverage through revenue growth and by controlling expenses and finding new efficiencies.
- Prudently manage risk.
- Carefully assess investment of capital.
- Maintain our strong position to take advantage of market opportunities.

### Key performance indicators

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

- net income
- productivity ratio and operating leverage



- loan loss ratio
- market share of key products
- new customer acquisition
- customer loyalty
- employee satisfaction

### Business profile

Canadian Banking provides a full range of banking and investing services to more than 7 million customers across Canada, through a network of 1,016 branches and 2,943 ABMs, as well as telephone and Internet banking.

Canadian Banking includes three main businesses:

- Retail and Small Business Banking provides mortgages, loans, credit cards, investments, insurance and day-to-day banking products to individuals and small businesses.
- Wealth Management provides a full range of products and services including: retail brokerage (discretionary, non-discretionary and self-directed); investment management advice; mutual funds and savings products; and financial, trust and estate planning, as well as private client services, for affluent customers.
- Commercial Banking delivers a full product suite to medium and large businesses, including banking, cash management, lending and leasing.

### Strategy

Delivering value to our customers and helping them become financially better off remains our core purpose. Canadian Banking's growth strategy is to build market share and drive sustainable, profitable revenue growth by strengthening existing customer relationships to win a greater share of their business and attracting new customers. We will achieve this by building on our strengths in customer service, our innovative products and programs, and our recent strategic acquisitions and partnerships.

## Financial performance

Canadian Banking reported net income of \$1,724 million in 2008, \$160 million or 10% higher than last year. Return on equity was 35.6%. Canadian Banking accounted for 55% of the Bank's total net income. Prior year results included a gain of \$92 million (net of applicable taxes) from the global Visa restructuring. Excluding this gain, underlying net income growth was \$252 million or 17%. Retail and small business banking, commercial banking, and wealth management all generated solid performances.

## Assets and liabilities

Average assets grew \$21 billion or 14% in 2008. This was led by a substantial increase in residential mortgage balances (before securitization) of \$14 billion or 15%. There was also a very good year-over-year increase in personal revolving credit and other personal loans. This resulted in a market share gain of 10 basis points versus last year in total personal lending. Business lending, including acceptances, was 13% higher than last year.

Retail and small business deposits grew \$10 billion or 12%, due mainly to an increase in term deposit balances and the impact of the Dundee Bank acquisition. These strong results led to an industry-leading gain in total personal deposit market share of 61 basis points from last year. Commercial deposits, including current accounts and non-personal term deposits, rose 3%. In wealth management, assets under administration declined 2% to \$128 billion, as market-driven declines were partially offset by net asset inflows. Assets under management grew 2% to \$26 billion.

## Revenues

Total revenues were \$6,498 million, up \$395 million or 6% from last year. Net interest income increased \$469 million to \$4,324 million, due to strong volume growth in both assets and deposits. This was partially offset by a decline in the margin of 5 basis points to 2.46%, due to a shift into relatively lower yielding variable rate mortgages, as well as higher wholesale funding requirements. This was partially offset by lower wholesale funding rates.

Other income for the year was \$2,174 million, a decrease of \$74 million or 3%. Excluding the \$111 million gain related to the global Visa restructuring in 2007, other income rose 2% or \$37 million. Solid performances in retail and small business and commercial banking were partly offset by a 2% decline in wealth management revenues, reflecting difficult market conditions.

### Retail & Small Business Banking

Total revenues were \$4,014 million, up \$262 million or 7% from last year excluding the Visa restructuring gain. Net interest income rose \$219 million or 8% from strong growth in assets and deposits, partially offset by a lower margin. Excluding the 2007 Visa gain, other income rose \$43 million or 5% due to higher foreign exchange, increased service fees from chequing and savings accounts due to new account growth, and higher credit card revenues reflecting growth in cardholder transactions.

### Commercial Banking

Total revenues rose \$275 million or 26% to \$1,349 million in 2008. Net interest income was 34% higher than last year, driven by strong growth in assets and a higher margin. Average assets rose 18% and average deposits increased 3%. Year over year, other income rose 4% to \$328 million.

## T24 Canadian Banking financial performance

(\$ millions)	2008	2007	2006
Net interest income <sup>(1)</sup>	\$ 4,324	\$ 3,855	\$ 3,682
Other income	2,174	2,248	1,935
Provision for credit losses (PCL)	(399)	(295)	(279)
Non-interest expenses	(3,632)	(3,559)	(3,469)
Income taxes <sup>(1)</sup>	(743)	(685)	(581)
Net income	\$ 1,724	\$ 1,564	\$ 1,288

### Key ratios

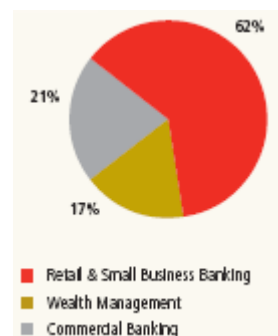
Return on equity (ROE)	<b>35.6%</b>	33.0%	27.8%
Productivity <sup>(1)</sup>	<b>55.9%</b>	58.3%	61.8%
Net interest margin (NIM) <sup>(1)</sup>	<b>2.46%</b>	2.51%	2.70%
PCL as a percentage of loans and acceptances	<b>0.23%</b>	0.19%	0.20%

Selected balance sheet data (average balances)

Earning assets	<b>175,464</b>	153,695	136,420
Deposits	<b>127,615</b>	116,012	107,370
Attributed equity	<b>4,764</b>	4,699	4,602

(1) Taxable equivalent basis.

**C26** Total revenue



## Management's Discussion and Analysis

### Wealth Management

Total revenues were \$1,135 million, up \$5 million from last year, despite significant declines in equity markets. Mutual fund revenue grew 7%, driven by net fund sales of \$1.5 billion. This growth, which led to greater market share, occurred primarily in more profitable, long-term funds. Private client revenues increased 6%, reflecting growth in Scotia Cassels managed account fees, Scotiabank estate and trust fees and private banking fees. ScotiaMcLeod Direct Investing revenues rose 24%, driven mainly by the acquisitions of E\*Trade and TradeFreedom. Full-service brokerage revenues fell 8%, mainly as a result of lower news issues, brokerage commissions, and mutual fund trailer fees partly offset by higher fee-based business and insurance revenues.

### Non-interest expenses

Non-interest expenses of \$3,632 million rose modestly in 2008, up \$73 million or 2% from last year. The increase was due mostly to the acquisitions of Dundee Bank, Scotia Dealer Advantage (formerly Travelers Leasing) and TradeFreedom. Also contributing were the impact of growth initiatives, including expansion of the branch network and sales force and normal merit increases. Partially offsetting these increases were lower commission-based, stock-based and other performance-based compensation.

### Credit quality

The provision for credit losses was \$399 million in 2008, an increase of \$104 million compared to last year. This was due to higher provisions in both the commercial and retail portfolios. The increase in the commercial provisions related primarily to a small number of accounts and to increases in small business banking, compared to a very low level of commercial provisions in 2007. The increase in retail provisions related mainly to asset growth in Scotia Dealer Advantage and the credit card portfolios, offset by higher recoveries in other personal loans.

### Outlook

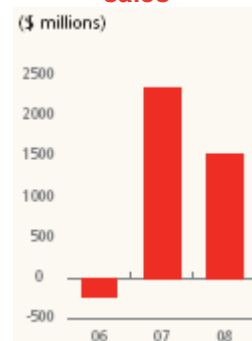
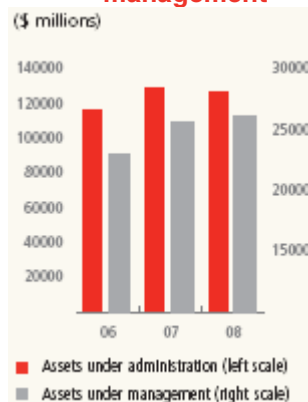
In 2009, we expect asset growth to moderate in retail and small business and commercial banking, consistent with the current slowing of the Canadian economy.

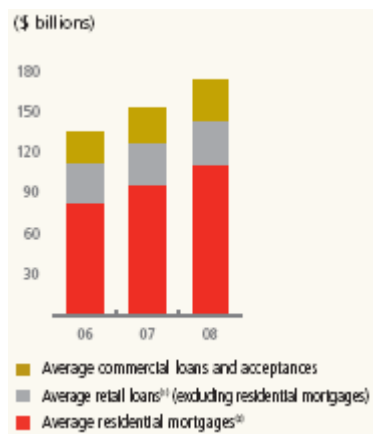
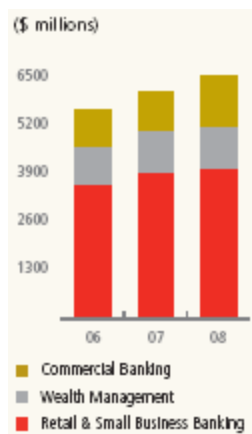
The interest margin is expected to remain fairly stable.

Growth in other income is expected to reflect deposit account growth, higher credit card revenues and the impact of other business initiatives. Wealth management revenues will benefit from our recent acquisition of E\*Trade Canada, but will be tempered by weak equity markets.

We expect moderate increases in retail and commercial loan loss provisions, given the weaker economic conditions. Overall, the retail credit portfolio is very well secured.

There will be a significant focus on controlling non-interest expenses in 2009.





- 
- (1) Includes small business and wealth management  
(2) Includes securitized mortgages

## Management's Discussion and Analysis



### 2008 Achievements

- We increased our presence in the affluent, consumer and micro finance, and small business segments.
- We added 1.1 million new customers in 2008.
- We continued to expand our distribution network by:
  - adding more than 90 branches, including 58 in Mexico; and
  - opening Private Client Group offices in Barbados and Peru to expand our wealth management operations.
- We continued to invest in Peru, a key growth market, by:
  - increasing in our ownership of Scotiabank Peru to 98%;
  - purchasing Banco del Trabajo's operations in Peru, making Scotiabank #1 in consumer finance in the country; and
  - acquiring 47.5% of Profuturo, Peru's fourth-largest private pension fund.
- We expanded our operations in Guatemala and the Dominican Republic with the purchase of select assets from Grupo Altas Cumbres of Chile.
- We formed a joint venture with the Bank of Beijing and acquired a stake in a Chinese-based fund management company, to create and market a wide variety of mutual funds.
- We continue to be recognized for our commitment to excellence and customer satisfaction and loyalty:
  - *Latin Finance* magazine selected Scotiabank as Bank of the Year 2008 in Jamaica.
  - *The Banker* magazine selected Scotiabank as Bank of the Year 2008 in the following countries: Canada, Belize, Costa Rica, Guyana, Trinidad & Tobago and Turks & Caicos.

### 2009 Priorities

- Launch new initiatives to optimize profitability and retention of high-value customers.
- Strengthen credit risk management by establishing a world-class retail account management and pricing platform.
- Maintain positive operating leverage through cost control initiatives.
- Drive non-interest revenue through a greater focus on fee-based services and products, such as insurance.
- Improve operational efficiency by upgrading our call centres, Internet presence and financial MIS to world-class standards.
- Seek opportunistic acquisitions and investments.

## Key performance indicators

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

- revenue growth
- return on equity
- new customer acquisition
- productivity ratio
- loan loss ratio

## Business profile

International Banking encompasses Scotiabank's retail and commercial banking operations in more than 40 countries outside Canada — an international presence unmatched by our domestic competitors. More than 47,000 employees, including subsidiaries and affiliates, provide a full range of financial services to over 5 million customers through a network of 1,850 branches and offices, 3,300 ABMs, telephone and Internet banking, in-store banking kiosks, and specialized sales forces. We operate in the following geographic regions: the Caribbean and Central America, Mexico, Latin America and Asia.

## Strategy

International Banking is growing through a combination of organic growth and acquisitions. We are driving organic growth in personal banking by improving the effectiveness of our in-branch sales teams, upgrading our contact centres and Internet banking capability, building our branch network and adding specialized sales forces. We are expanding beyond our traditional retail customer base by increasing our presence in the affluent and consumer finance segments. We are driving growth in the commercial and corporate banking business by leveraging the full range of services and expertise in the Scotiabank Group. We are also expanding beyond traditional banking products and services to build our presence in insurance and pension fund management.

Our acquisition strategy is focused primarily on acquiring financial services companies in markets where we have existing operations. We also use acquisitions to selectively enter new markets.

---

## Management's Discussion and Analysis

### Financial performance

International Banking's net income in 2008 was \$1,186 million, a decrease of \$64 million or 5% from last year. Excluding \$128 million in charges relating to valuation adjustments, and the \$29 million gain from the IPO of the Mexican Stock Exchange in 2008, as well as the \$71 million in gains on the global Visa restructuring in 2007, net income was up \$106 million or 9% from last year, despite the \$83 million negative impact of foreign currency translation. The most significant contributors to this earnings growth were Peru, Asia and our acquisition in Chile. Mexico also had strong retail loan growth, but was impacted by increased loan losses and a higher tax rate, as the remaining tax loss carryforwards were fully utilized in 2007. International Banking accounted for 38% of the Bank's total net income and had a return on equity of 15.5%.

### Assets and liabilities

Average assets increased 20% during the year to \$79 billion, despite the 6% negative impact of foreign currency translation. The increase was a result of normal business growth, as well as acquisitions. Underlying commercial loan growth from existing businesses of \$8 billion or 29% was primarily in Asia and the Caribbean and Central America. Similarly, strong retail loan growth of 21% was driven by credit cards and mortgages, up 32% and 25%, respectively, spread across the business line. Growth in low-cost deposits was also strong at 11%, as balances rose due to acquisitions, as well as business growth throughout the Caribbean, Peru and Mexico.

### Revenues

Total revenues were \$4,597 million in 2008, an increase of \$608 million or 15% from last year, despite a \$239 million negative impact of foreign currency translation.

Net interest income was \$3,315 million in 2008, an increase of \$553 million or 20% from last year, despite a negative foreign currency translation impact of \$176 million. The underlying increase was a result of strong loan growth of 26% across the division, as well as the impact of the acquisition in Chile. The net interest margin was down slightly from last year, with small increases in Mexico and the Caribbean, offset by a decrease in Peru.

Other income increased \$55 million or 4% year over year to \$1,282 million. Excluding the gains on the global Visa restructuring in 2007, as well as the charges relating to valuation adjustments and the gain on the IPO of the Mexican Stock Exchange in 2008, and the negative impact of foreign currency translation, growth was a strong 28%. This was partly a result of the acquisitions in Chile, Peru and the Caribbean and Central America, higher gains on non-trading securities and widespread transaction-driven growth.

#### Caribbean and Central America

Total revenues were \$1,712 million in 2008, an increase of \$46 million or 3%, despite the negative impact of foreign currency translation and the gains on the global Visa restructuring in 2007.

Net interest income was \$1,289 million in 2008, an increase of \$96 million or 8% from last year, or 17% excluding the negative impact of foreign currency translation. The underlying increase was driven by asset growth across the region, with a 12% increase in commercial lending, 31% increase in credit cards and 21% increase in mortgages.

Other income of \$423 million was down \$50 million from last year. This included the negative impact of foreign currency translation of \$27 million and the \$63 million in gains from the global Visa restructuring in 2007. The underlying 8% growth was due to acquisitions, a positive change in the fair value of certain financial instruments, as well as increases in credit card and personal banking fees.

#### Mexico

Total revenues were \$1,381 million in 2008, an increase of \$15 million or 1% compared to last year. This included a negative impact of foreign currency translation of \$70 million and \$19 million in gains from the global Visa restructuring in 2007.

Net interest income was \$903 million in 2008, an increase of \$15 million or 2% from last year, despite a \$45 million negative impact of foreign currency translation. The underlying increase was driven by strong retail loan growth, with 32% growth in credit card balances and a 29% increase in mortgages. Net interest margins also rose from last year, reflecting a change in the mix of assets.



Other income was flat compared to last year, as the gain from the IPO of the Mexican Stock Exchange this year was offset by the negative impact of the gains from the global Visa restructuring in 2007 and the impact of foreign currency translation. Underlying growth in retail fees and

## **T25** International Banking financial performance

(\$ millions)	2008	2007	2006
Net interest income <sup>(1)</sup>	\$ 3,315	\$ 2,762	\$ 2,306
Other income	1,282	1,227	939
Provision for credit losses (PCL)	(236)	(101)	(60)
Non-interest expenses	(2,634)	(2,279)	(1,927)
Income taxes/non-controlling interest <sup>(1)</sup>	(541)	(359)	(196)
Net income	\$ 1,186	\$ 1,250	\$ 1,062
<b>Key ratios</b>			
Return on equity (ROE)	15.5%	19.5%	23.4%
Productivity <sup>(1)</sup>	57.3%	57.1%	59.4%
Net interest margin (NIM) <sup>(1)</sup>	4.17%	4.18%	4.15%
PCL as a percentage of loans and acceptances	0.44%	0.25%	0.18%
<b>Selected balance sheet data (average balances)</b>			
Earning assets	79,403	66,146	55,510
Deposits	45,438	48,959	41,309
Attributed equity	7,353	6,322	4,500

(1) Taxable equivalent basis.

other transaction-driven revenues was offset by lower investment banking revenues and commercial banking fees.

Latin America, Asia and Other

Total revenues were \$1,504 million in 2008, an increase of \$547 million over last year, due primarily to acquisitions in Chile, Peru and Asia. The remaining increase arose mainly from very strong widespread loan growth, including a 63% increase in commercial loans, as well as increased investment banking revenues and gains on non-trading securities. These were partly offset by lower other income in Asia due to charges relating to valuation adjustments and the negative impact of foreign currency translation.

Non-interest expenses

Non-interest expenses were \$2,634 million in 2008, up \$355 million or 16% from last year. This included a \$114 million favourable impact of foreign currency translation and a \$189 million increase from acquisitions. The remaining growth was due to higher compensation expenses, consistent with business growth and new branch openings, volume-driven increases in communications and processing costs, higher credit card expenses, litigation fees and advertising.

Credit quality

The provision for credit losses was \$236 million in 2008, an increase of \$135 million compared to last year. Retail portfolios in Mexico, Peru, the Caribbean and, to a lesser extent Chile, recorded increased provisions for credit losses, mainly related to asset growth, acquisitions and rising delinquency in certain markets. The International commercial portfolio continued to benefit from similar levels of net reversals and recoveries as last year.

Increased focus on the consumer finance segment in several markets, notably Peru and Chile, contributed to an increase in loan loss provisions. However, these segments are accompanied by higher yields.

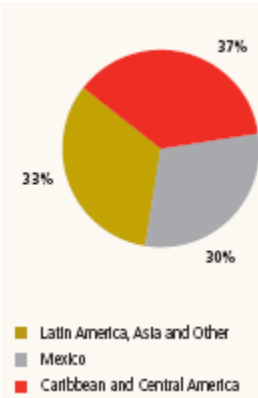
Outlook

Asset growth in 2009 is expected to moderate in all regions, given the global economic slowdown. However, revenues are expected to continue to increase, as we benefit from strong asset growth in 2008, the widening of lending spreads, and our continued focus on growing fee-based transaction revenues.

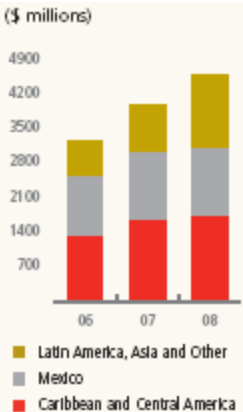
The management of credit quality will continue to be a key focus in 2009. Provisions for credit losses will increase, particularly in our Latin American retail portfolios. In addition, there will be reduced recoveries in the commercial portfolios. However, credit quality is expected to remain within risk tolerance levels, as we should benefit from increased collections activity, and the impact of tighter underwriting standards implemented early in the cycle.

While expenses are expected to increase in 2009 due to the impact of acquisitions, inflation and spending on some initiatives, the growth will be closely managed.

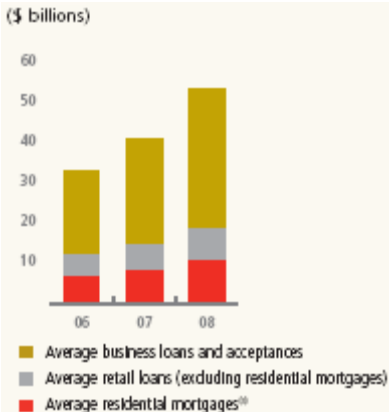
C31 Total revenue



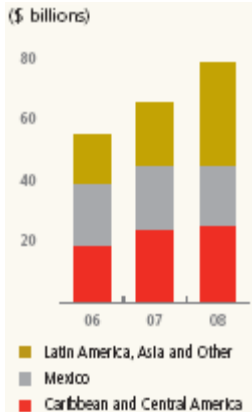
C32 Revenue growth



C33 Strong loan growth



C34 Total assets



(1) Includes securitized mortgages



---

## Management's Discussion and Analysis



### 2008 Achievements

- Scotia Capital's Securities Lending team was named #1 for Service During the Recent Credit Crisis in a 2008 global survey by *International Securities Finance* magazine.
- Scotia Capital was named the Best Foreign Exchange Bank in Canada for the fourth year in a row by *Global Finance* magazine.
- ScotiaMocatta was granted membership in the Shanghai Gold Exchange, the first time that a branch of a foreign bank has been given membership.
- Scotia Capital was recognized with two *Project Finance Magazine* awards for the North American Nuclear Deal of the Year and the North American Acquisition Deal of the Year.

### Notable transactions during the year:

- Scotia Capital acted as co-financial advisor to the Board of CHC Helicopter Corporation on the \$3.7 billion sale of CHC to First Reserve Corporation, a leading private equity firm in the energy industry.
- Scotia Capital acted as joint bookrunner on a US\$1.3 billion multi-tranche offering of collateral trust bonds by National Rural Utilities Cooperative Finance Corporation. The transaction was the largest U.S. dollar bond offering ever led by Scotia Capital.

### 2009 Priorities

- Continue to prudently manage risks, particularly credit and market risks.
- Execute our sectoral strategy by expanding client coverage globally in selected industries and areas such as oil & gas, mining, power and institutional investor clients.
- Continue to grow our NAFTA capabilities, a significant competitive advantage.
- Utilize our expanded and enhanced infrastructure platform to increase market share.
- Improve our equities franchise (sales, trading, research, underwriting).
- Partner more closely with International Banking to optimize delivery of wholesale products and services to clients outside Scotia Capital's core geographic markets.

### Key performance indicators

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

- revenue growth
- client profitability (return on economic equity)
- improvement of cross sell
- loan loss ratio

- productivity ratio
- value at risk

### **Business profile**

Scotia Capital is the wholesale banking arm of the Scotiabank Group. We offer 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 U.S. We also provide select products and services to niche markets in Europe and Asia.

Scotia Capital provides corporate lending, equity underwriting and mergers & acquisitions advisory services, as well as capital markets products and services, such as fixed income, derivatives, prime brokerage, retail investment products, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious metals.

### **Strategy**

Our strategy remains focused on growing revenue and earning a good return on shareholder capital while prudently managing risk. Revenue growth is expected to come from establishing new client relationships; building global capabilities in selected industries; increasing penetration of institutional investor clients, and leveraging our NAFTA platform.

## Financial performance

Scotia Capital contributed net income of \$787 million in 2008, a 30% decrease from last year. However, underlying performance was solid given market conditions. Scotia Capital absorbed approximately \$632 million (\$382 million after tax) in charges relating to certain trading activities and valuation adjustments. Revenues decreased 25%, due primarily to the impact of these charges. However, market conditions also provided profitable opportunities, including some specific transactions. There were record performances in our foreign exchange, precious metals, fixed income and Scotia Waterous businesses, accompanied by revenue growth from the lending portfolios. This mitigated the decline in revenues in other areas due to difficult market conditions, and highlights the strength and diversification of our businesses.

Exposure to credit losses remained generally favourable, although significantly lower net loan loss and interest recoveries were realized compared to the prior year. Return on equity was 22%, lower than last year's performance. Scotia Capital contributed 25% of the Bank's overall results.

## Assets and liabilities

Total average assets rose to \$164 billion, an increase of 8% compared to last year. Average corporate loans and acceptances grew \$7.2 billion, or 24%, to \$37.9 billion. This strong growth was achieved in the U.S., Europe and Canada. There was also an increase of \$2 billion in trading securities and loans to support both client-driven activity and trading opportunities.

## Revenues

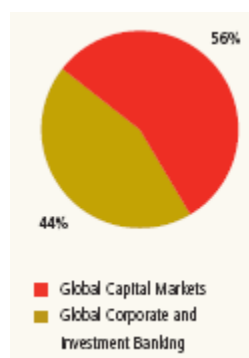
Total revenues decreased to \$1,827 million, down 25% compared to the prior year, due primarily to the charges mentioned above. Revenues decreased in both Global Capital Markets and Global Corporate and Investment Banking.

Net interest income decreased 3% to \$1,120 million, due primarily to lower interest from trading operations and lower interest recoveries on impaired loans, which were partially offset by substantially higher interest from the lending portfolios. Other income declined 45% to \$707 million, reflecting both lower trading revenues and charges related to certain trading activities and valuation adjustments, as discussed earlier. As well, lower investment banking revenues were partly offset by higher credit-related fees.

### Global Corporate and Investment Banking

Total revenues were \$806 million, a decrease of 32% compared to last year. This primarily reflected the writedown to fair value of CDOs in the U.S. portfolio. Interest income rose a modest 3%, as strong growth in asset volumes and portfolio spreads in all lending markets was substantially offset by lower interest recoveries from impaired loans. Loan origination fees also increased. Other income decreased substantially from the prior year, reflecting the writedowns mentioned above. New issue and advisory fees decreased due to the lower level of market activity, despite record advisory fees in Scotia Waterous. Credit fees were higher, partly driven by growth in acceptance fees in Canada.

### C35 Total revenue



## Scotia Capital financial performance

(\$ millions)	2008	2007	2006
Net interest income <sup>(1)</sup>	\$ 1,120	\$ 1,160	\$ 951
Other income	707	1,290	1,437
Recovery of (provision for) credit losses (PCL)	5	101	63
Non-interest expenses	(937)	(1,013)	(955)
Income taxes <sup>(1)</sup>	(108)	(413)	(443)
Net income	\$ 787	\$ 1,125	\$ 1,053
Key ratios			
Return on equity (ROE)	21.5%	29.0%	31.3%
Productivity <sup>(1)</sup>	51.3%	41.3%	40.0%
Net interest margin (NIM) <sup>(1)</sup>	0.68%	0.76%	0.73%
PCL as a percentage of loans and acceptances <sup>(2)</sup>	(0.01)%	(0.33)%	(0.25)%
Selected balance sheet data (average balances)			
Total assets	163,664	152,285	129,825
Earning assets	140,570	138,793	116,598
Loans and acceptances	69,991	63,691	51,723
Securities	63,716	69,557	61,655
Attributed equity	3,571	3,841	3,349

(1) Taxable equivalent basis.

(2) Corporate Banking only.

## Management's Discussion and Analysis

### Global Capital Markets

Total revenues were \$1,021 million, a decrease of 18% compared to last year. This partly reflects the fourth quarter charge of \$171 million in trading revenues related to the bankruptcy of Lehman Brothers and the recognition in 2007 of \$135 million of losses on structured credit instruments as well as a \$43 million gain on the sale of the bond index business. Interest income from trading operations decreased 10%, due mainly to lower tax-exempt dividend income. Other income declined 26%, despite record revenues in our foreign exchange, precious metals and fixed income businesses. In addition to the items mentioned above, revenues from derivatives declined and losses were incurred in equity trading.

### Non-interest expenses

Non-interest expenses were \$937 million in 2008, an 8% decrease from last year, due largely to a substantial reduction in performance-related compensation. This was partly offset by higher technology spending to support business growth. Also, there were decreases in costs related to pensions and benefits, travel and business development, professional fees and capital taxes.

### Credit quality

Scotia Capital reported net loan loss recoveries of \$5 million in 2008, compared to \$101 million in 2007. Recoveries in 2008 were realized primarily in the Canadian, U.S. and European portfolios, partially offset by two new provisions.

### Outlook

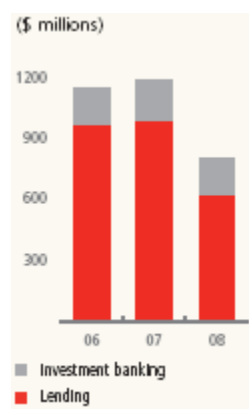
In 2009, Scotia Capital's operating environment will be affected by weaker economic conditions and volatility in global financial markets.

In Global Capital Markets, while some trading businesses may have limited demand, market conditions should also provide adequate opportunities for growth.

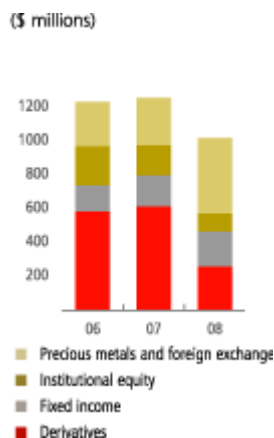
In Global Corporate and Investment Banking, we may see improvements in the equity issuance and merger and acquisitions advisory businesses. We should also benefit from improved pricing and conditions on loan transactions. The provision for credit losses is expected to increase, given the current economic weakness and lower levels of recoveries. Notwithstanding this increase, we expect to benefit from the shift in the loan portfolio over the past several years to a higher proportion of investment grade customers.

In this environment, we will closely manage operating costs.

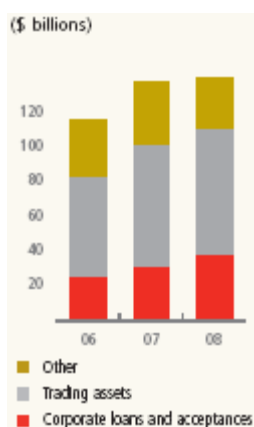
#### C36 Global corporate and investment banking revenue



#### C37 Global capital markets revenue



#### C38 Good asset growth







## 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 \$557 million in 2008, compared to net income of \$106 million in 2007.

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 \$416 million in 2008, compared to \$531 million last year.

### Revenues

Net interest income was negative \$1,185 million this year, compared to negative \$679 million in 2007. This decrease was due to mark-to-market losses relating to certain derivatives used for asset/liability management purposes that do not qualify for hedge accounting. These losses are expected to reverse over the life of the hedges (see Items of note on page 24). In addition, there were higher costs associated with managing the Bank's interest rate risk, including higher liquidity premiums in the wholesale funding market.

Other income of \$139 million was \$488 million lower than last year. The decrease was mainly attributable to lower gains on non-trading securities. In addition, there were valuation adjustments totaling \$280 million in 2008, compared to \$56 million in 2007 (see Items of note on page 24). These declines were partly offset by higher securitization revenues.

### Non-interest expenses

Non-interest expenses decreased by \$50 million from last year to \$93 million, mainly from lower litigation and property-related expenses.

### Credit quality

The provision for credit losses in 2007 included a \$25 million reduction in the general allowance. There was no reduction in the general allowance in 2008.

### Income taxes

The provision for income taxes includes the elimination of the gross-up of tax-exempt income, which was \$115 million lower than last year.

### Outlook

Net interest income is expected to be impacted by the increased cost of liquidity and relatively higher costs for hedging the Bank's interest rate risk in the wholesale markets. We expect continued revenues from securitization activities, and a decline in gains on non-trading securities.



### Other financial performance

(\$ millions)	2008	2007	2006
Net interest income <sup>(1)</sup>	<b>\$(1,185)</b>	\$ (679)	\$ (531)
Other income	<b>139</b>	627	489
Recovery of (provision for) credit losses	<b>—</b>	25	60
Non-interest expenses	<b>(93)</b>	(143)	(92)
Income taxes <sup>(1)</sup>	<b>582</b>	276	250

Net income	<u>\$ (557)</u>	<u>\$ 106</u>	<u>\$ 176</u>
------------	-----------------	---------------	---------------

(1) Taxable equivalent basis.

## Management's Discussion and Analysis

# Risk Management



### Overview

Risk, to varying degrees, is present in all business activities of a financial services organization, so effective risk management is fundamental to the success of the Bank. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and risk tolerance, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

The Bank has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities.

These risk exposures include:

1. Credit
2. Market
3. Liquidity
4. Operational
5. Reputational
6. Environmental

### Risk governance

The Bank's risk management governance structure begins with oversight by the Board of Directors, either directly or through its committees. The Board receives regular updates on the key risks of the Bank, and approves key risk policies, strategies, and limits. 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.

The Bank's Global Risk Management group is responsible for the design and application of the Bank's risk management framework, and is independent of the Bank's business units. The framework is integrated with the Bank's strategy and business planning processes. The effectiveness of this framework is enhanced by active participation of the Board of Directors, senior executive and business line management in the risk management process.

Executive management, and in particular the Chief Executive Officer, is responsible for risk management under the direct oversight of the Board. The Bank's Chief Risk Officer reports to the Chief Executive Officer, but maintains independent access to the Board.

The governance structure is outlined in the diagram on page 63.

In July 2008, the Institute of International Finance Committee on Market Best Practices released its final report on

how to address shortcomings in business practices and market structures that may have contributed to the global financial market turbulence in 2007 and 2008. The Bank is conducting a self-assessment against these recommendations and will be reporting the results to the Board of Directors when completed.

### Risk management framework

Scotiabank's risk management framework has four main components as shown in the diagram above.

Each component is regularly reviewed and updated to ensure consistency with risk-taking activities, and relevance to the business and financial strategies of the Bank.

This risk management framework is also applied to significant subsidiaries of the Bank. These subsidiaries have risk management programs in place that conform in all material respects to the Bank's risk management framework, although the actual execution of their risk management programs may be different. For new acquisitions, or situations where control of a subsidiary has been recently established, the Bank will assess existing risk management programs and, if necessary, develop an action plan to make improvements in a timely fashion.

#### Policies, strategies & limits

Policies and strategies establish the governance and risk management culture over the Bank's risk taking activities. They also provide guidance to the businesses and risk management units by articulating medium to long term targets that define the Bank's risk appetite. These targets are, 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 are also developed based on the requirements of regulatory authorities, and include input from the Board of Directors and senior executive management.

Limits are set for two purposes. First, limits control risk-taking activities within the tolerances established by the Board of Directors and senior executive management. Second, limits establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

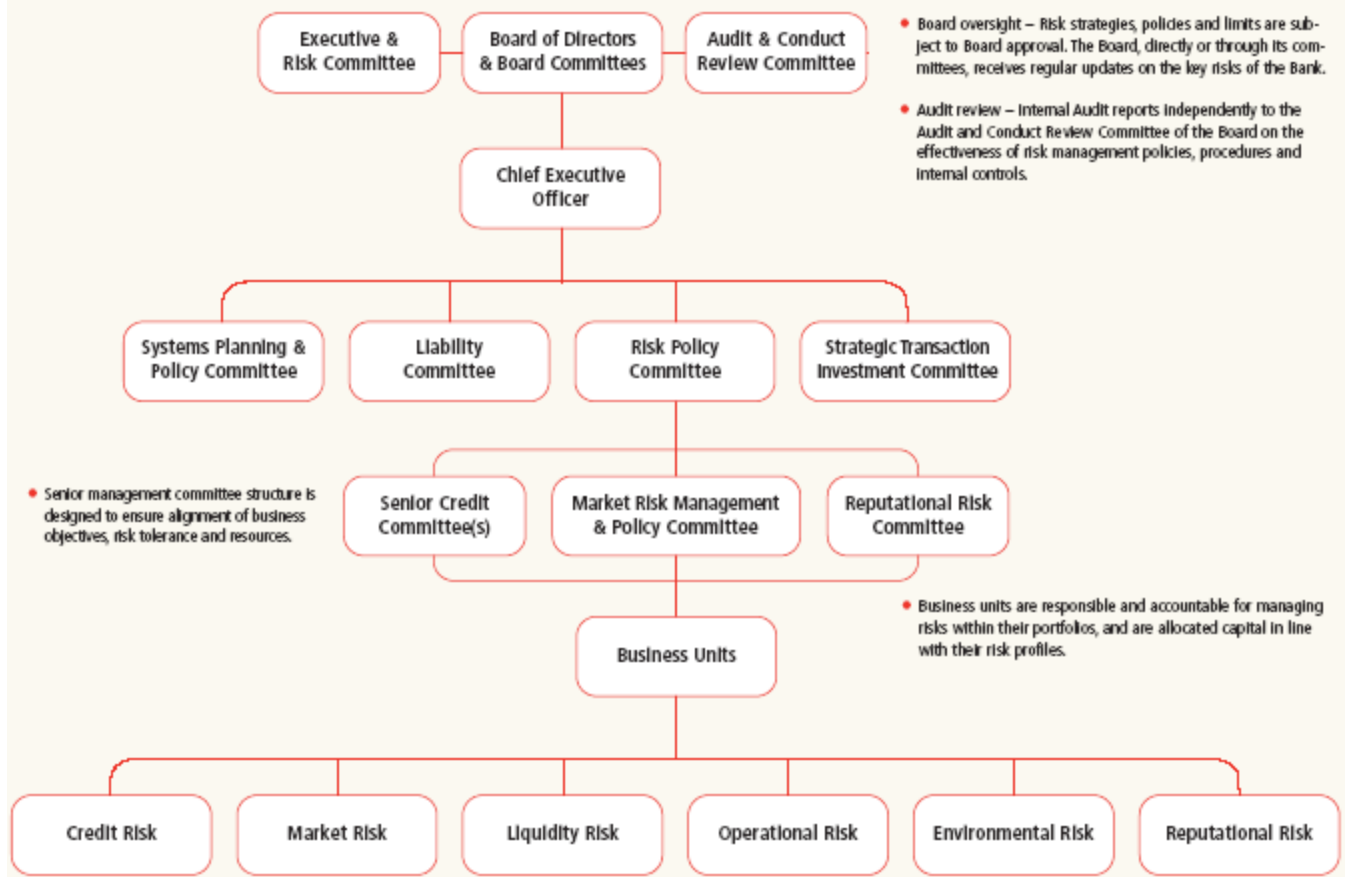
#### Guidelines

Guidelines are the directives provided to implement policies as set out above. Generally, these describe the facility types, aggregate facility exposures and conditions under which the Bank is prepared to do business. These may change from time to time, due to market or other circumstances. Risk taking outside of these guidelines is usually approved by the Bank's Senior Credit Committees, Market Risk Management and Policy Committee or Risk Policy Committee.

#### Processes & standards

Processes are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and

## 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 and Reputational Risk committees.

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

**Strategic Transaction 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.

### Senior Management Committees:

**Senior Credit Committees:** adjudicate corporate and commercial 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. In addition, there are separate senior committees that authorize major credit policy changes for retail and small business credits.

**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.

**Reputational Risk Committee:** upon referral from business lines or risk committees, reviews business activities, initiatives, products or transactions, 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.



---

## Management's Discussion and Analysis

quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation.

### Measurement, monitoring and reporting

Measurement tools quantify risk across products and businesses and are used, among other things, to determine risk exposure. Global Risk Management is responsible for developing and maintaining an appropriate suite of such tools to support the operations of the various business lines, and for supporting the measurement of economic capital on an enterprise-wide basis.

The Bank regularly monitors its risk exposures to ensure business activities are operating within approved limits or guidelines. Breaches, if any, of these limits or guidelines are reported to either senior management, policy committees, or the Board of Directors depending on the limit or guideline. The Bank also deploys stress testing programs at the risk level and enterprise-wide level, to assess the potential impact on the Bank's income and capital.

Reporting tools are also required to aggregate measures of risk across products and businesses for the purposes of ensuring compliance with policies, limits and guidelines and providing a mechanism for communicating the amounts, types and sensitivities of the various risks in the portfolio. This information is used by the Board and senior executive management to understand the Bank's risk profile and the performance of the portfolio. A comprehensive summary of the Bank's risk profile and performance of the portfolio against defined goals is presented quarterly to the Executive and Risk Committee of the Board of Directors.

Internal Audit independently monitors the effectiveness of risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes related to the identification, measurement, management, monitoring and reporting of risks.

## 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 38).
- 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 writeoffs.

Corporate and commercial credit exposures are segmented by country and by major industry group, and aggregate credit risk limits for each of these segments is 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 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 — meet the objectives of transparency and replicability 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:

- (i) credit risk rating methodologies and parameters are appropriately designed and developed, independently validated, and regularly reviewed; and
- (ii) 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.

### Commercial and corporate

#### 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 syndication process, as guidelines for hold levels are tied to different risk ratings.

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 and domestic commercial portfolios, 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 judgment of management, an account requires the expertise of specialists in workouts and restructurings, it will be transferred to a special account group for monitoring and resolution.

### Derivatives

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 fair value plus potential future exposure, uses credit mitigation techniques, such as netting and collateralization, and considers credit risk in determining the fair value of derivatives. Investment grade counterparties account for approximately 90% of the credit risk amount arising from the Bank's derivative transactions. Approximately 70% of the Bank's derivative counterparty exposures are to bank counterparties. After applying netting arrangements and taking collateral amounts held into consideration, no bank net exposure was considered material to the financial position of the Bank as at October 31, 2008, and none exceeded \$230 million pre-tax.

### Risk ratings

The Bank's risk rating system utilizes internal grade (IG) codes — a 19-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 28.

---

## Management's Discussion and Analysis

IG codes are also used to define credit adjudication authority levels appropriate to the size and risk of each transaction. 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 transactions 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. 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 Domestic Implementation Notes, are applied to estimates obtained from historical data. These analytical adjustments incorporate the regulatory requirements pertaining to:

- (i) 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;
- (ii) downturn estimation for LGD and EAD, which requires that these estimates appropriately reflect conditions observed during periods of economic stress; and
- (iii) the addition of an adequate level of conservatism, which should be commensurate to the statistical uncertainty inherent in historical estimates.

These risk measures are then converted into risk weights (RW) by means of formulas specified by the Basel Committee, which are used in the calculation of regulatory capital ratios. The Bank's corporate and domestic commercial credit portfolio Basel II amounts under the AIRB approach are shown in Table 29.

## Consumer

### Adjudication

The decision-making process for consumer loans, which includes small business 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 customer focused, rather than product focused. We believe that a customer-centric approach provides better risk assessment than product-based approaches, and should result in lower loan losses over time. Our adjudication software calculates the maximum debt for which a customer qualifies, allowing customers to choose the products that satisfy all of their credit needs. International Banking is migrating to

Internal Grade	Description	Equivalent Rating	
		Moodys	S&P
99 – 98	Investment grade	Aaa to Aa1	AAA to AA+
95 – 90		Aa2 to A3	AA to A-
87 – 83		Baa1 to Baa3	BBB+ to BBB-
80 – 75	Non-investment grade	Ba1 to Ba3	BB+ to BB-
73 – 70		B1 to B3	B+ to B-
65 – 30	Watch list		
27 – 21	Default		

(1) Applies to non-retail portfolio.

## **T29** Credit risk assessment of exposures Non-retail AIRB portfolio<sup>(1)</sup>

As at October 31, 2008	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>	196,911	0.13	31	23
Non-investment grade	54,567	0.82	43	75
Watch list	2,735	24.41	44	229
Default	297 <sup>(7)</sup>	100.00	53	546
<b>Total</b>	<b>254,510</b>	<b>0.65</b>	<b>34</b>	<b>37</b>

(1) Excludes securitization exposures.

(2) Includes \$36.3 billion government guaranteed 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.

a similar approach to underwriting and risk modeling.

Credit scoring and policy changes proposed by the business lines are evaluated by Global Risk Management and subject to ongoing validation and 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 creditworthiness 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.

Ratings systems are validated on an annual basis at a minimum, and additional validations are conducted if significant deterioration is detected in portfolio or scorecard performance. Validations are conducted independently from the areas responsible for rating system development and are subject to additional independent review to ensure independence and effectiveness.

#### Canadian retail

The Bank uses the AIRB approach under Basel II to determine minimum regulatory capital requirements for its domestic 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 approval and risk management. They are used as part of the ongoing review and monitoring of our policies/procedures. As well, these parameters, along with the estimation of expected loss, are also used to determine the Bank's economic capital requirements. The expected loss calculation is also compared to the provisions in Canadian Banking to ensure they reflect reasonable market conditions.

PD is estimated using a statistical model that is applied to all performing (non-defaulted) facilities on a monthly basis. 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 macroeconomic factors. All retail portfolios use the Basel standard definition of default in calculating Probability of Default (PD), with no deviations. The retail portfolio is comprised of the following Basel-based components:

- Residential mortgages consist 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 home equity lines of credit (HELOCs).
- Qualifying revolving 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, but may be summarized as shown in Table 30.

Retail facilities can generally be cancelled unconditionally at time of default, meaning no additional draw down 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 in the next 12 months.

LGD is calculated by dividing the losses (less the net present value of recoveries and collection costs) by EAD. The historic LGD is used to forecast the LGD we will experience in the portfolio in the following 12 months.

These risk measures are then converted into risk weights (RW) by means of formulas specified by the Basel Committee. The Bank's domestic retail credit portfolio Basel II amounts under the AIRB approach are shown in Table 31.

#### International retail

International retail credit portfolios (the Bank does not have a U.S. retail presence) consist of the following components:

- Residential mortgages consist of conventional and high ratio residential mortgages.
- Qualifying revolving consists of all unsecured credit cards, lines of credit (secured and unsecured) and overdrafts.
- Other retail consists of term loans (secured and unsecured).

**T30** Retail loan probability  
of default scale

Category of PD Grades	PD Range
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%

**T31** Credit risk assessment of exposures  
Retail AIRB portfolio

As at October 31, 2008	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	74,214	0.08	23	4
Low	15,174	0.37	39	14
Medium	15,862	1.01	52	32
High	1,468	7.62	54	84
Very high	518	25.59	82	215
Default	312 <sup>(6)</sup>	100.00	55	0
<b>Total</b>	<b>107,548</b>	<b>0.77</b>	<b>30</b>	<b>11</b>

(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.

---

Management’s Discussion and Analysis

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. A description of each market risk category is provided below:

Interest rate risk

is 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

is the risk of loss due to changes in the market price of credit, or the creditworthiness of a particular issuer.

Foreign currency risk

is the risk of loss due to changes in spot and forward prices, and the volatility of currency exchange rates.

Equity risk

is the risk of loss due to changes in the prices, and the volatility, of individual equity instruments and equity indices.

Commodity risk

is 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	Interest rate risk Foreign currency risk
---------	---

---

Investments	Interest rate risk Credit spread risk Foreign currency risk Equities risk
-------------	--

---

Trading	Interest rate risk Credit spread risk Foreign currency risk Equities risk Commodities risk
---------	--

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, a one-day holding period and historical simulations based on 300 days of market data. This means that, about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. 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 200 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. Our 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. 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 domestic 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.



Currently, the Bank is using the Standardized Approach under Basel II to determine regulatory capital requirements. This approach applies fixed risk weights to different categories of loans. Retail risk parameters for PD, EAD, and LGD are under development for the Bank's Caribbean portfolios.

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, 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.

### 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.

Interest rate risk exposure calculations are generally based on the earlier of contractual repricing or maturity of on- 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 the longevity of the balance. Expected prepayments from loan and cashable investment products are also incorporated into the exposure calculations. Common shareholders' equity is assumed to be non-interest rate sensitive.

C39

### Interest rate gap

\$ billions, one-year interest rate gap



## T32 Interest rate gap

Interest rate sensitivity position <sup>(1)</sup> As at October 31, 2008 (\$ billions)	Within 3 months	3 to 12 months	Over 1 year	Non-inter- est rate sensitive	Total
<b>Canadian dollars</b>					
Assets	\$ 139.2	\$ 21.7	\$ 67.4	\$ 23.7	\$ 252.0
Liabilities	104.8	38.8	78.5	29.9	252.0
Gap	34.4	(17.1)	(11.1)	(6.2)	
Cumulative gap	34.4	17.3	6.2	—	
<b>Foreign currencies</b>					
Assets	130.2	21.5	32.1	71.8	255.6
Liabilities	141.8	14.4	9.5	89.9	255.6
Gap	(11.6)	7.1	22.6	(18.1)	—
Cumulative gap	(11.6)	(4.5)	18.1	—	
<b>Total</b>					
Gap	\$ 22.8	\$ (10.0)	\$ 11.5	\$ (24.3)	
Cumulative gap	22.8	12.8	24.3	—	
As at October 31, 2007:					
Gap	\$ 14.6	\$ (6.9)	\$ 17.4	\$ (25.1)	
Cumulative gap	14.6	7.7	25.1	—	

(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.

## Management's Discussion and Analysis

Table 32 shows the breakdown of the Canadian dollar and foreign currency interest rate gaps as at October 31, 2008, and Chart 39 illustrates trends in one-year interest rate gaps.

As at October 31, 2007, the Canadian dollar had a one-year asset gap reflecting a shift in consumer preferences to variable-rate mortgages. These exposures trended higher throughout fiscal 2008.

The Bank maintained a one-year liability gap in foreign currencies for most of fiscal 2008.

Table 33 shows the before-tax impact of a 100 and 200 basis point shift on annual income and economic value of shareholders' equity. Based on the Bank's interest rate positions at year-end 2008, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income before-tax by

approximately \$133 million over the next 12 months. During fiscal 2008, this measure has ranged between \$20 million and \$184 million. This same increase in interest rates would result in a before-tax decrease in the present value of the Bank's net assets of approximately \$553 million. During fiscal 2008, this measure has ranged between \$227 million and \$813 million.

### Foreign currency risk

Foreign currency risk in the Bank's funding and investment activities arises primarily from the Bank's net investments in self-sustaining foreign operations as well as foreign currency profits earned in its domestic and 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 exposures to these net investments. The LCO determines whether the Bank should fully or partially hedge this exposure. Hedging activity may consist of 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. Changes in foreign currency rates relative to the Canadian dollar result in unrealized gains or losses on these net investments which increase or decrease the Bank's capital. 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 normally change in approximately the same proportion as the change in capital.

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, 2008, a one per cent increase (decrease) in the Canadian dollar against all currencies in which the Bank operates, decreases (increases) the Bank's before-tax annual earnings by approximately \$38 million in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar would increase (decrease) the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately \$174 million as at October 31, 2008, 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

## T33 Structural Interest Sensitivity

(\$ millions)	2008		2007	
	Economic Value of Shareholders' Equity	Annual Income	Economic Value of Shareholders' Equity	Annual Income
<b>Before-Tax Impact of</b>				
100bp increase in rates	(553)	133	(843)	120
100bp decrease in rates	513	(148)	738	(101)
<b>Before-Tax Impact of</b>				
200bp increase in rates	(1,096)	257	(1,565)	344
200bp decrease in rates	1,048	(296)	1,377	(311)

## T34 One-day VAR by risk factor

(\$ millions)	2008	Avg	High	Low
	Year end			
Interest rate	23.8	14.2	25.0	9.7
Equities	4.9	4.8	24.9	2.1

Foreign exchange	<b>1.7</b>	1.1	4.7	0.4
Commodities	<b>3.4</b>	3.1	4.7	1.9
Diversification effect	<b>(7.3)</b>	(6.3)	N/A	N/A
All-Bank VAR	<b>26.5</b>	16.8	30.4	10.8

(\$ millions)	2007 Year end	Avg	High	Low
Interest rate	<b>18.6</b>	8.2	18.6	5.7
Equities	4.4	5.9	14.7	2.6
Foreign exchange	<b>2.7</b>	1.9	5.6	0.4
Commodities	2.0	1.3	2.2	0.4
Diversification effect	<b>(6.9)</b>	(4.9)	N/A	N/A
All-Bank VAR	<b>20.8</b>	12.4	22.0	7.6

investments primarily consist of government, agency, and corporate bonds, as well as certain structured credit instruments. 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.

As at October 31, 2008, the fair value of the Bank's investment portfolios was below cost by \$1,228 million (after related derivative and other hedge amounts), compared to a surplus of \$972 million at the end of fiscal 2007. For further details, see Table 57 on page 92.

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.

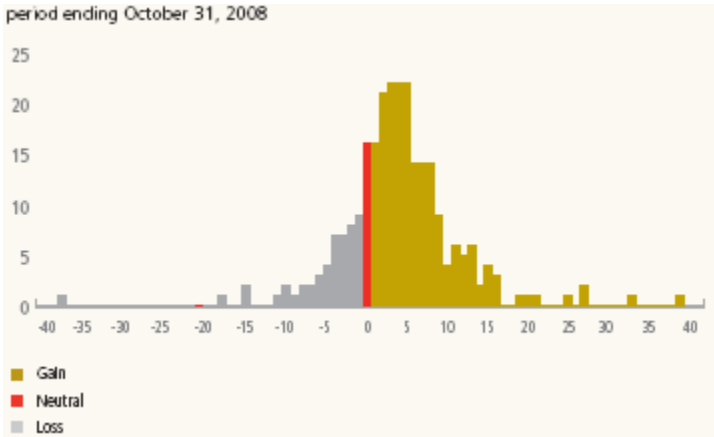
Market risk arising from the Bank's trading activities is managed in accordance with Board-approved policies, and aggregate VaR and stress testing limits. The quality of the Bank's VaR is validated by regular backtesting analysis, in which the VaR is compared to theoretical and actual profit and loss results.

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 Global Risk Management units on a regular 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 where appropriate. In certain situations, the product valuation process requires the application of a valuation adjustment. For a discussion of valuation considerations, refer to the discussion of the fair value of financial instruments on page 78.

In fiscal 2008, the one-day VAR for trading activities averaged \$16.8 million, compared to \$12.4 million in 2007. Volatile market conditions, particularly during the last quarter of fiscal 2008, were a major contributing factor to the increase. Higher interest rate and commodity risk were partially offset by reduced equity and foreign exchange risk. Table 34 shows VAR by risk factor.

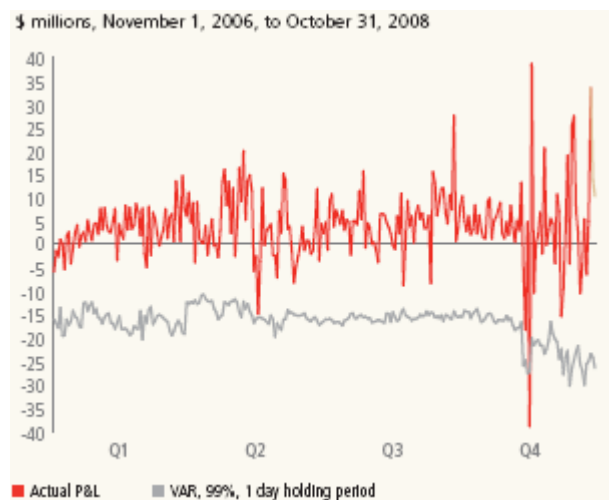
Chart 40 shows the distribution of daily trading revenue for fiscal 2008. Trading revenue averaged \$2.3 million per day, compared to \$3.8 million for 2007. The decline was due primarily to the default of a large investment bank counterparty in the fourth quarter, as well as a reserve taken against a U.S. monoline insurer earlier in the fiscal year. (Excluding these items, the daily average trading revenue was \$3.3 million per day in 2008.) In addition, equity and interest rate revenues have declined. Revenue was positive on more than 77% of trading days during the year, compared to 92% in 2007. During the year, the largest single day loss was \$39 million. This occurred on September 18, 2008 due to significant movements in the equity markets. This loss also exceeded the one-day VAR estimate as shown in Chart 41, although a small number of such losses are consistent with the 99% confidence level used in the VAR. The largest single day profit of \$38.6 million

C40 Trading revenues<sup>(1)</sup>



- (1) Taxable equivalent basis; refer to non-GAAP measures on page 27. Amounts exclude certain large items that cannot be properly ascribed to any one day and would distort the comparison.

**C41** Daily trading revenue<sup>(1)</sup> vs. value at risk<sup>(2)</sup>



- (1) Amounts exclude certain large items that cannot be properly ascribed to any one day and would distort the comparison.
- (2) Taxable equivalent basis; refer to non-GAAP measures on page 27.

---

## Management's Discussion and Analysis

occurred the following day on September 19, 2008 and was also due to volatility in the equity markets.

### 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 model to calculate the capital charge for general market risk and equity specific risk. The attributes/parameters of this model are described in the Risk Measurement Summary on page 68. The Office of the Superintendent of Financial Institutions has approved the Bank's internal VaR model for the determination of its General Market Risk Capital and Equity Specific Risk Capital requirements.

For non-material trading portfolios, the Bank applies the Standardized Approach for calculating general market risk capital. The standardized method uses a "building block" approach with the capital charge for each risk category calculated separately.

The Bank currently uses the standardized approach for calculating debt specific risk capital. The Bank has developed an internal model for calculating debt specific risk capital which uses a combination of Monte Carlo and historical simulation at a 99 percent confidence interval. The model is subject to the same set of conditions that apply to the general risk model the Bank uses to calculate the capital charge for market risk. The debt specific risk model has been submitted to OSFI for regulatory approval. If approved, market risk capital would be reduced.

## 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 lower 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 under Trading activities. Additional controls and analytical techniques are applied to address certain market-related risks that are unique to derivative products.

Total notional amounts of derivatives as at October 31, 2008, were \$1,562 billion compared to \$1,287 billion a year ago. The increase was primarily attributable to the effect of foreign currency translation, as the Canadian dollar weakened relative to the U.S. dollar at the year end. With respect to credit derivatives, notional amounts were \$120 billion as at October 31, 2008, up \$40 billion from a year ago, with approximately half of this increase due to foreign currency translation. The balance of the growth was primarily in the Bank's trading businesses, mainly to hedge its net credit trading risk exposures. Approximately 55% of the credit derivative notional amounts represent derivative contracts where the Bank has purchased credit protection, and the balance where the Bank has sold credit protection as a result of its trading operations. The net long (purchased) credit protection from credit derivatives in the trading book is generally offsetting net long loan positions held for trading.

The Bank also uses credit derivatives in its investment and loan portfolios. Credit protection is sold as an alternative to bond or loan assets, while credit protection is bought to manage credit exposures in its non-trading loan portfolio. As at October 31, 2008, the notional value of credit default swaps sold in the investment and credit portfolios was \$0.1 billion, and the notional value bought as protection was \$0.9 billion.

### 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, and the 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 our core businesses to continue to generate revenue, even under adverse circumstances. This 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.

Global Risk Management provides independent oversight of all significant liquidity risks, supporting the LCO with analysis, risk measurement, stress testing, monitoring, and reporting. They provide senior management, and the LCO with a series of daily, weekly and monthly reports of liquidity risk exposures.

The key elements of our 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 and a minimum level of core liquidity.
- **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.
- **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. These tests consider the effect of changes in funding assumptions, depositor behaviour, the market value of core liquidity, and market variables, including interest rates, foreign currency rates, and equity and commodity prices. 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 a liquidity crisis. The plan outlines the crisis management team's mandate, the internal and external parties to be contacted to ensure effective distribution of information, and the actions that need to be considered at various stages of an event.

## Liquidity profile

The Bank maintains large holdings of liquid assets to support its operations, as shown in Table 35. These assets generally can be sold or pledged to meet the Bank's obligations. As at October 31, 2008, liquid assets were \$106 billion (2007 — \$103 billion), equal to 21% (2007 — 25%) of total assets. The mix of these assets between securities and other liquid assets, including cash and deposits with banks, was 64% and 36%, respectively (2007 — 71% and 29%, 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, 2008, total assets pledged or sold under repurchase agreements were \$82 billion (2007 — \$68 billion). The year-over-year increase was due to an increase in pledges to central banks and pledges for securities sold under repurchase agreements offset by decreases in pledges relating to securities borrowed and lent.

## T35 Liquidity

As at October 31 (\$ millions)	2008	2007	2006	2005	2004
<b>Canadian dollar liquid assets</b>					
Cash and deposits with Bank of Canada	\$ 498	\$ 502	\$ 469	\$ 481	\$ 356

Deposits with other banks	1,654	4,152	2,445	1,770	1,255
Securities	46,558	53,429	53,762	39,361	32,211
	48,710	58,083	56,676	41,612	33,822
<b>Foreign currency liquid assets</b>					
Cash and deposits with Bank of Canada	3,064	4,503	3,839	3,142	2,624
Deposits with other banks	32,102	20,039	16,623	15,112	12,920
Securities	21,298	19,809	20,824	22,180	19,344
Call and short loans	1,087	874	5	—	—
	57,551	45,225	41,291	40,434	34,888
<b>Total liquid assets</b>					
Cash and deposits with Bank of Canada	3,562	5,005	4,308	3,623	2,980
Deposits with other banks	33,756	24,191	19,068	16,882	14,175
Securities	67,856	73,238	74,586	61,541	51,555
Call and short loans	1,087	874	5	—	—
	\$106,261	\$103,308	\$97,967	\$82,046	\$68,710
Liquid assets as a % of total assets	20.9%	25.1%	25.8%	26.1%	24.6%

---

## Management's Discussion and Analysis

### 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 our domestic 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. Core funds, represented by capital and core deposits of the Bank's retail and commercial clients, were \$222 billion as at October 31, 2008, versus \$192 billion last year (see Chart 42). This increase was attributable primarily to higher balances of demand and notice deposits and personal term deposits. As at October 31, 2008, the Bank's core funds represented 44% of total funding, compared to 47% last year.

During the fourth quarter wholesale funding markets, particularly U.S. dollar markets, became disrupted as the term preference of wholesale depositors and investors shortened considerably. As a result, it became more difficult for banks to maintain their desired liability maturity profile. Many governments around the world, including Canada, introduced various liquidity support programs to help alleviate this funding pressure. Although the Bank was impacted by the change in the markets, it was able to operate within its liquidity risk limits.

### Contractual obligations

Table 36 provides aggregated information about the Bank's contractual obligations as at October 31, 2008, which affect the Bank's liquidity and capital resource needs. 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. The table excludes deposit liabilities (except term funding), other short-term financing arrangements, lending commitments and pension and other retirement benefit obligations, which are discussed in Notes 10, 24, 23 and 19, respectively, of the 2008 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 2008 the Bank issued approximately \$24 billion of term funding in the domestic, euro, Yankee and other markets. The outstanding balance of the Bank's subordinated debentures increased in 2008 as five new issues were partially offset by the redemption and maturity of two existing issues.

Other long-term liabilities include transactions where the Bank is the paying agent on customer lease transactions, and term financing bonds in the Bank's foreign subsidiaries.

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 \$217 million in 2008.

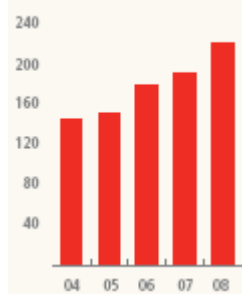
Two major outsourcing contracts have been entered into by the Bank. The largest is a seven-year contract with IBM Canada, signed in 2001, to manage the Bank's Canadian computer operations, including data centres, branches, automated banking machines, and desktop computing environment. The contract was expanded in 2005 to include the computer operations for the Caribbean and Central America, and Mexico. The contract for Canadian operations was renewed in 2007 and is now extended until 2013, co-terminus with Mexico and Caribbean and Central America. 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 first of the five-year options has been exercised. These outsourcing contracts can be cancelled 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 were \$319 million in 2008, up 16% from \$274 million in 2007. The increase was primarily in technology, which rose \$31 million or 37%, due to the upgrading of branch and ABM hardware in Canada. Real estate spending increased \$14 million or 7%.

\$ billions, October 31



(\$ millions)	Under 1 year	1-3 years	4-5 years	Over 5 years	Total
<b>Term funding</b>					
Wholesale deposit notes	13,227	12,604	5,155	1,826	32,812
Euro MTN	8,235	11,092	1,904	634	21,865
Subordinated debentures	325	—	3,200	752	4,277
Other long-term liabilities	270	766	800	1,129	2,965
<b>Subtotal</b>	<b>22,057</b>	<b>24,462</b>	<b>11,059</b>	<b>4,341</b>	<b>61,919</b>
Operating leases	193	309	197	282	981
Outsourcing obligations	204	410	410	220	1,244
<b>Total</b>	<b>22,454</b>	<b>25,181</b>	<b>11,666</b>	<b>4,843</b>	<b>64,144</b>

## Operational risk

Operational risk 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. Operational risk, in some form, exists in each of the Bank's business and support activities, and can result in financial loss, regulatory sanctions and damage to the Bank's reputation.

The Bank has developed policies, standards and assessment methodologies to ensure that operational risk is appropriately identified, managed and controlled. The governing principles and fundamental components of the Bank's operational risk management approach include:

- Accountability in the individual business lines for management and control of the significant operational risks to which they are exposed.
- A robust internal control environment.
- An effective organization structure through which operational risk is managed, including:
  - A Board of Directors responsible for sound corporate governance and which approves the Bank's Operational Risk Management Policy;
  - Executive management who have clearly defined areas of responsibility;
  - A central operational risk management unit responsible for developing methods to identify, assess, report on and monitor operational risks;
  - Independent specialist units responsible for developing methods to control/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 determining whether appropriate controls are in place to ensure that overall risk is at an acceptable level.
- A variety of risk management programs, including a program designed to promote compliance with relevant laws and regulatory requirements. Compliance risk is managed through an established network and a process that includes: monitoring regulatory changes; conducting compliance risk assessments; implementing policies and procedures; training; and monitoring and resolving issues.
- An operational risk management framework, consisting of processes and controls to identify, assess, monitor and manage operational risk.

The following are key components of the Bank's operational risk management framework:

- The Bank's risk control self-assessment program, which is managed by Global Risk Management's central operational risk management unit, includes formal reviews of significant operations to identify and assess operational risks. This program provides a basis for management to ensure that appropriate and effective controls and processes are in place on an ongoing basis to mitigate operational risk and, if not, that appropriate corrective action is being taken. Where appropriate, business line management develops action plans to mitigate identified risks. 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 management unit, captures key information on operational losses. The scope of operational loss event data captured within the centralized database continues to be enhanced. This data is analyzed, benchmarked against external data, and reported to executive management and the Board of Directors.
- The Bank's Key Risk Indicator reporting to executive management, which provides insight into operational risk exposure trends or significant metrics.
- The Bank's business continuity management policies, which require 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 tracks, monitors and ensures compliance with these policies.

- 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.

### **Reputational risk**

Reputational risk is the risk that negative publicity regarding Scotiabank's conduct or business practices, 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

---

## Management's Discussion and Analysis

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, the Bank considers whether the transaction or relationship 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 a Board-approved environmental policy. The policy guides our day-to-day operations, lending practices, supplier agreements and the management of our real estate holdings. 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. Global Risk Management has primary responsibility for establishing the related policies, processes and standards associated mitigating environmental risk in the Bank's lending activities. Decisions are taken in the context of the risk management framework discussed on page 62.

In 2006, the Bank's environmental risk practices in the area of project finance were further enhanced with the adoption of the revised Equator Principles. These are environmental and social guidelines for project finance transactions with a capital cost of US\$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. The revised principles have been integrated into the Bank's internal policies and procedures.

In 2008, the Bank's environmental risk practices in the area of corporate lending were further enhanced with the integration of climate change risk analysis in cases where climate change may have a material impact on our clients and their growth.

Environmental concerns also play a prominent role in shaping our real estate practices. 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. In order to further reduce the Bank's environmental footprint, we have developed an internal Environmental Paper Policy and we are 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 the issues of climate change, protection of biodiversity, promotion of sustainable forestry practices, and other environmental issues important to our customers and communities where we operate. We have an ongoing process of reviewing our policies in these areas. 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.

For more information on Scotiabank's environmental policies and practices, please refer to our annual Public Accountability Statement/Corporate Social Responsibility Report, which is also available online at [www.scotiabank.com](http://www.scotiabank.com), 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 104.

### Disclosure controls and procedures

Our 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, 2008, 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 U.S. Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities, and has concluded that the Bank's disclosure controls and procedures are effective.

### Internal controls over financial reporting

Management of the Bank is responsible for establishing and maintaining adequate internal controls 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 GAAP, 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 controls 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 controls 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 of October 31, 2008.

### 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, 2008.

## 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 111 to 115 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 judgments 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 judgments and estimates could have a material impact on the Bank's 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 judgments at many levels. These subjective judgments 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 using other reasonable judgments and estimates could directly affect the provision for credit losses.

The allowance for credit losses are 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 judgment 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 judgments 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 higher in 2008 than in 2007, attributable primarily to higher International Retail provisions, reduced reversals and recoveries in Scotia Capital, and to higher provisions in the Canadian Commercial and Retail portfolios.

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 \$70 million (2007 — \$61 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.

The general allowance for credit losses as at October 31, 2008, was \$1,323 million, an increase of \$25 million from a year ago. The increase was attributable to the acquisition of Banco del Desarrollo in Chile during 2008.

### Fair value of financial instruments

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

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 (see Note 1 for further details on significant accounting policies). All investment securities designated as available-for-sale (other than equity securities which do not have a quoted market price in an active market), as well as all derivatives used for asset/liability management, are recorded at fair value on the balance sheet. Changes in the fair values of available-for-sale securities are included in the Consolidated Statement of Comprehensive Income (see Note 1 for further details on significant accounting policies). All changes in derivative fair values other than those designated as cash flow hedges are recorded in the Consolidated Statement of Income, while the latter flows through Other Comprehensive Income.

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 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, we use the closing price of the most recent transaction of that instrument 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.

Minimal management judgement is required for fair values calculated using quoted market prices or observable market inputs for models. 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 inac-

	2008				
	Assets			Liabilities	
	Trading Securities	Available-for-sale securities	Derivatives	Obligations related to securities sold short	Derivatives
<b>Fair value based on:</b>					
Quoted market prices	99%	75%	0%	100%	0%
Internal models with significant observable market parameters	1%	24%	96%	0%	93%
Internal models with significant unobservable market parameters	0%	1%	4%	0%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

tive 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 non-performance risk and 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 judgment on valuation inputs is necessary to determine fair value.

Most derivatives are not actively traded and are therefore normally valued using models which incorporate significant observable market parameters. Securities that are fair valued using models include certain CDOs and 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. However, certain derivative 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. Inception profit on derivatives with unobservable market data is deferred over the life of the derivative contract, or until the valuation inputs become observable. This amount was insignificant in fiscal 2008 and 2007. Management also applies judgment in the selection of internal valuation models, as well as consideration on a portfolio basis, of customer credit risk and ongoing direct costs in the determination of fair value. Valuation adjustments recorded in order to arrive at the fair value of derivatives totaled \$273 million as at October 31, 2008 (2007 — \$217 million). These valuation adjustments are mainly due to counterparty credit risk considerations.

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 current 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 breakdown of valuation sources for trading securities, available-for-sale securities, obligations related to securities sold short and derivatives is shown in Table 38. Percentages are in line with the prior year, other than an increase in derivatives valued with significant unobservable market parameters. Derivative assets in this category have increased from 2% to 4% and derivative liabilities have increased from 2% to 7% reflecting mark-to-market volatility on certain credit derivatives.

### 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 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 judgments 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 suffered 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 impairments are recorded in net gains on securities, other than trading in the Consolidated Statement of Income.

As at October 31, 2008, the gross unrealized gains on available-for-sale securities recorded in accumulated other comprehensive income were \$818 million (2007 — \$1,183 million), and the gross unrealized losses were \$2,046 million (2007 — \$211 million), resulting in a net unrealized gain (loss) of (\$1,228) million (2007 — \$972 million) before related derivative and other hedge amounts, (\$1,320) million (2007 — \$977 million) after related derivative and other hedge amounts.

As at October 31, 2008, there were \$2,131 million (2007 — \$3,553 million) of available-for-sale securities that had been in a continuous unrealized loss position for more than 12 months. The associated unrealized loss recorded in accumulated other comprehensive income on these securities as at October 31, 2008, was \$352 million (2007 — \$90 million), of which \$290 million (2007 — \$85 million) related to debt securities and \$62 million (2007 — \$5 million) related to equity securities. A significant portion of unrealized losses at October 31, 2008, relate to debt securities. The unrealized losses on the debt instruments arose primarily from an increase in credit spreads. Based on factors including underlying credit of the issuers and the over-collateralization provided on certain of these debt securities, the Bank expects that future interest and principal payments will continue to be received on a timely basis. A smaller portion of the

unrealized losses at October 31, 2008, related to equity securities. The Bank holds a diversified portfolio of available-for-sale equities. For equity investments, the significant portion of unrealized losses arose during the latter part of fiscal 2008 reflecting the current market environment, timing of the market prices or investment-specific business environment factors. 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. Please refer to the Off-balance sheet arrangements section (see page 42) and Selected credit instruments section (see page 48) for a discussion of other-than-temporary impairment losses recognized on these instruments.

---

## Management's Discussion and Analysis

### 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. Little judgment is required in selecting this rate, since it is generally prescribed to be equal to the current yield on long term, high-quality corporate bonds with a duration similar to the benefit obligation. Due to current credit market conditions, the discount rate used to calculate the value of the benefit obligation at the end of the current year is higher compared to prior years. The management assumption with the greatest potential impact is the assumed long-term rate of return on assets. If this assumed long-term rate of return on assets was 1% lower (higher), the benefit expense for 2008 would have been \$52 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 surplus of \$1.1 billion in its principal pension plans as disclosed in Note 19 to the consolidated financial statements on page 132. However, there has been significant turmoil in the capital markets since these measurement dates which has resulted in a decline in plan asset values. This decline has been mitigated by a reduction in the benefit obligation from higher discount rates. Including the effect of these factors, the Bank's principal pension plans are estimated to be in a net surplus position under GAAP at October 31, 2008.

The above factors will impact the benefit expense for fiscal years 2010 and beyond. In addition, cash contributions for the Bank's principal pension plans are estimated to increase in 2009 due partly to current market conditions.

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 22 years for the Bank's principal pension plans, and nine to 27 years for the Bank's principal other benefit plans.

Note 19 on pages 132 to 134 of the 2008 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, along with a sensitivity analysis of changes in these assumptions on the employee future benefit obligation and expense. Note 1 on pages 111 to 115 contains further information on the significant accounting policies underlying the accounting for employee future benefits.

### Corporate income taxes

Management exercises judgment 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 arising in prior years were \$196 million as at October 31, 2008 (2007 — \$203 million), for which the Bank established a valuation allowance of \$10 million (2007

— \$102 million) due to uncertainty about the realization of these losses. Furthermore, one of the Bank's foreign subsidiaries has a valuation allowance of \$241 million (2007 — \$213 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 \$2,536 million as at October 31, 2008 (2007 — \$1,114 million). Note 1 on pages 111 to 115 and Note 18 on page 131 of the 2008 consolidated financial statements contain 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 42 to 46 in the Off-balance sheet arrangements section.

Management is required to exercise judgment to determine whether a VIE should be consolidated. This evaluation involves understanding the arrange-



ments, 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 judgment 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 VIE's where the Bank has a variable interest: changes to the VIEs 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 the year, the Bank's U.S. multi-seller conduit transferred certain assets to the Bank pursuant to the terms and conditions of the liquidity asset purchase agreement. (Refer to discussion on pages 44 to 45). At the time of such transfer, the Bank reassessed the expected losses of the conduit. After considering the increased subordinate note issued to an unrelated party, the Bank determined that the subordinated note holder continues to be the primary beneficiary of the conduit. As such, the Bank was not required to consolidate the Bank's U.S. multi-seller conduit on the Bank's balance sheet.

As described in Note 6 to the consolidated financial statements (on pages 120 to 121) and in the discussion on Off-balance sheet arrangements (on pages 44 to 45), the Bank is not the primary beneficiary of the three multi-seller 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, 2008, it would result in an increase in the Bank's reported assets of approximately \$11.8 billion, and a reduction in capital ratios of approximately 20-30 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 judgment 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 has not recorded any goodwill impairment losses in 2008 or 2007.

### 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**

The CICA has issued a new accounting standard that establishes requirements for capital disclosures. This was effective for the Bank commencing November 1, 2007, and requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital, and whether an entity has complied with any capital requirements, and consequences of non-compliance with such capital requirements. These capital disclosures are included in Note 15 (see page 127).

The CICA has issued two new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation

---

## Management's Discussion and Analysis

requirements for financial instruments. These new standards were effective for the Bank commencing November 1, 2007. The new disclosures provide additional information on the nature and extent of risks arising from financial instruments to which the Bank is exposed and how it manages those risks. These financial instrument disclosures are included in Note 24 (see pages 139 to 147).

### Reclassification of financial assets

In October 2008, the CICA issued amendments to the accounting standard on Financial Instruments — Recognition and Measurement which permit the reclassification of certain financial assets out of the held-for-trading category under rare circumstances. Pursuant to these amendments, the Bank reviewed its portfolio of trading assets and determined that, other than two trading portfolios discussed below, significant reclassifications were not appropriate due to the nature of assets in the Bank's trading portfolio, which are generally not considered illiquid. In addition, the Bank does not carry significant unhedged positions in its trading portfolios.

During the fourth quarter of 2008, in accordance with these amendments, the Bank reclassified specified assets out of trading securities to available-for-sale securities retroactive to 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. If these reclassifications of bond assets and preferred shares had not been made, the Bank would have recorded a pre-tax loss of \$26 million and \$10 million respectively during the fourth quarter relating to fair value movements on these assets. Due to the reclassifications, these amounts have been recorded in other comprehensive income for the period ended October 31, 2008. 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.

### Transition to international financial reporting standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced with IFRS. For the Bank, IFRS will be effective for interim and annual periods commencing November 1, 2011, including the preparation and reporting of one year of comparative figures.

In order to prepare for the transition to IFRS, the Bank has developed a high level implementation plan and has established a formal governance structure which includes senior levels of management from all relevant departments. In addition, the Bank has commenced assessing the impact of the significant accounting differences between IFRS and Canadian GAAP, including analyzing the impact to business processes, systems and internal control over financial reporting.

Further updates on implementation progress and potential reporting impact from the adoption of IFRS will be provided during the implementation period.

### 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 \$4.6 million as at October 31, 2008 (2007 — \$10.4 million), and loans to directors nil (2007 — \$0.7 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 21 of the Consolidated Financial Statements on page 134).

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 \$5.7 million as at October 31, 2008 (2007 — \$418 million), while actual utilized amounts were \$2.0 million (2007 — \$204 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 generally accepted accounting principles. 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

	2008					2007					2006				
	Canada	United States	Mexico	Other Inter-national	Total	Canada	United States	Mexico	Other Inter-national	Total	Canada	United States	Mexico	Other Inter-national	Total
For the fiscal years (\$ millions)															
Net interest income	\$ 4,471	\$ 236	\$ 903	\$ 2,627	\$8,237	\$ 4,294	\$ 152	\$ 887	\$ 2,012	\$7,345	\$ 4,029	\$ 71	\$ 802	\$ 1,656	\$6,558
Provision for credit losses	388	16	141	85	630	295	(91)	68	23	295	273	(41)	27	17	276
Other income	2,614	(202)	478	1,137	4,027	3,084	698	478	930	5,190	2,883	581	403	726	4,593
Non-interest expenses	4,315	200	793	1,982	7,290	4,285	224	723	1,712	6,944	4,110	241	630	1,448	6,429
Provision for income taxes	344	(98)	122	369	737	474	215	51	225	965	478	138	(17)	153	752
Non-controlling interest	—	—	9	110	119	—	—	12	106	118	—	—	15	83	98
Net income	\$ 2,038	\$ (84)	\$ 316	\$ 1,218	\$3,488	\$ 2,324	\$ 502	\$ 511	\$ 876	\$4,213	\$ 2,051	\$ 314	\$ 550	\$ 681	\$3,596
Preferred dividends paid					97					46					24
Corporate adjustments <sup>(1)</sup>					(358)					(173)					(23)
Net income available to common shareholders					\$3,033					\$3,994					\$3,549

(1) 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)	2008	2007	2006	2005	2004	2008	2004
<b>Canada</b>							
Atlantic provinces	\$ 16.2	\$ 14.2	\$ 12.7	\$ 12.1	\$ 11.3	5.6%	7.1%
Quebec	16.7	14.2	13.1	9.8	8.4	5.8	5.2
Ontario	103.5	91.1	81.5	72.4	66.5	35.9	41.5
Manitoba and Saskatchewan	6.4	6.0	5.4	5.3	5.1	2.2	3.2
Alberta	22.4	19.9	17.1	14.7	13.7	7.8	8.6
British Columbia	21.2	18.8	16.4	14.2	13.3	7.3	8.3
	186.4	164.2	146.2	128.5	118.3	64.6	73.9
<b>United States</b>	20.6	14.9	14.3	8.8	9.8	7.1	6.1
<b>Mexico</b>	10.9	8.9	9.3	8.5	7.3	3.8	4.5
<b>Other International</b>							
Latin America	22.6	11.6	9.2	5.2	4.9	7.8	3.1
Europe	18.4	10.2	8.1	7.3	6.1	6.4	3.8
Caribbean	14.8	12.2	11.6	10.1	10.1	5.1	6.3
Other	16.1	9.9	7.4	6.5	5.0	5.6	3.2
	71.9	43.9	36.3	29.1	26.1	24.9	16.4
General allowance <sup>(1)</sup>	(1.3)	(1.3)	(1.3)	(1.3)	(1.4)	(0.4)	(0.9)
<b>Total loans and acceptances</b>	<b>\$ 288.5</b>	<b>\$ 230.6</b>	<b>\$ 204.8</b>	<b>\$ 173.6</b>	<b>\$ 160.1</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)	2008	2007	2006	2005	2004
Canada	\$ 761	\$ 606	\$ 655	\$ 537	\$ 489
United States	107	11	119	331	701
Mexico	216	188	213	190	223
Other International	1,410	739	883	762	787
<b>Total</b>	<b>\$ 2,494</b>	<b>\$ 1,544</b>	<b>\$ 1,870</b>	<b>\$ 1,820</b>	<b>\$ 2,200</b>

\* Certain comparative amounts in the Supplementary Data section have been reclassified to conform with current year presentation.

## Management's Discussion and Analysis

### T41 Specific provision for credit losses by geographic segment

For the fiscal years (\$ millions)	2008	2007	2006	2005	2004
Canada	\$ 388	\$ 295	\$ 273	\$ 264	\$ 299
United States	16	(91)	(41)	(93)	54
Mexico	141	68	27	34	6
Other International	85	23	17	70	131
<b>Total</b>	<b>\$ 630</b>	<b>\$ 295</b>	<b>\$ 276</b>	<b>\$ 275</b>	<b>\$ 490</b>

### T42 Geographic distribution of earning assets

As at September 30 (\$ billions)	2008		2007	2006	2005	2004
	Balance	% of earning assets				
<b>North America</b>						
Canada	\$263.0	61.2%	\$247.5	\$218.4	\$187.2	\$166.9
United States	38.2	8.9	36.3	41.9	32.5	25.0
	<b>301.2</b>	<b>70.1</b>	<b>283.8</b>	<b>260.3</b>	<b>219.7</b>	<b>191.9</b>
<b>Mexico</b>	<b>22.8</b>	<b>5.3</b>	<b>19.8</b>	<b>21.1</b>	<b>20.4</b>	<b>18.7</b>
<b>Europe</b>						
United Kingdom	11.0	2.6	6.4	6.4	6.8	7.4
Germany	4.1	1.0	3.8	3.5	2.0	3.5
Ireland	11.1	2.6	6.2	4.8	4.0	2.0
France	2.2	0.5	2.3	2.5	1.9	1.1
Netherlands	2.5	0.6	1.4	1.5	1.7	0.8
Other	7.5	1.7	5.5	3.4	4.2	3.4
	<b>38.4</b>	<b>9.0</b>	<b>25.6</b>	<b>22.1</b>	<b>20.6</b>	<b>18.2</b>
<b>Caribbean</b>						
Jamaica	3.6	0.8	3.2	3.1	2.8	3.0
Puerto Rico	2.4	0.6	2.1	2.0	1.7	1.9
Bahamas	3.0	0.7	2.4	2.4	1.8	1.7
Trinidad & Tobago	2.1	0.5	1.7	1.5	1.7	1.5
Other	8.8	2.0	7.3	9.0	6.1	6.7
	<b>19.9</b>	<b>4.6</b>	<b>16.7</b>	<b>18.0</b>	<b>14.1</b>	<b>14.8</b>
<b>Latin America</b>						
Chile	11.0	2.6	4.2	4.2	3.2	3.3
Peru	7.4	1.7	4.5	4.1	0.1	0.2
Other	9.1	2.1	7.0	4.3	3.7	3.3
	<b>27.5</b>	<b>6.4</b>	<b>15.7</b>	<b>12.6</b>	<b>7.0</b>	<b>6.8</b>
<b>Asia</b>						
India	3.7	0.9	2.5	1.8	1.5	2.0
Malaysia	1.8	0.4	1.4	1.3	1.8	1.4
South Korea	2.0	0.5	1.8	1.6	1.7	1.4
Japan	1.9	0.4	1.8	1.1	1.0	1.1
Hong Kong	2.6	0.6	1.6	1.7	1.4	0.9
Other	6.0	1.4	3.6	2.9	2.7	2.4
	<b>18.0</b>	<b>4.2</b>	<b>12.7</b>	<b>10.4</b>	<b>10.1</b>	<b>9.2</b>
<b>Middle East and Africa</b>	<b>3.1</b>	<b>0.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.1</b>	<b>0.7</b>
General allowance <sup>(1)</sup>	(1.3)	(0.3)	(1.3)	(1.3)	(1.3)	(1.4)
<b>Total</b>	<b>\$429.6</b>	<b>100.0%</b>	<b>\$374.8</b>	<b>\$345.0</b>	<b>\$291.7</b>	<b>\$258.9</b>

---

(1) As at October 31.



## Credit risk

### T43 Cross-border exposure to select countries<sup>(1)</sup>

As at October 31 (\$ millions)	Loans	Interbank deposits	Trade	Government and other securities	Investment in subsidiaries and affiliates	Other	2008 Total	2007 Total
<b>Mexico</b>	\$1,881	\$ —	\$ 92	\$ 595	\$ 2,328	\$ 38	<b>\$ 4,934</b>	\$3,796
<b>Asia</b>								
India	\$1,595	\$ 35	\$1,023	\$ 293	\$ —	\$ 70	<b>\$ 3,016</b>	\$1,703
South Korea	1,866	—	666	524	—	208	<b>3,264</b>	1,659
China	824	61	1,291	27	—	85	<b>2,288</b>	1,432
Japan	783	15	39	81	—	569	<b>1,487</b>	930
Hong Kong	477	—	101	585	—	40	<b>1,203</b>	776
Malaysia	759	—	31	359	184	8	<b>1,341</b>	614
Thailand	79	—	39	105	250	2	<b>475</b>	329
Other <sup>(2)</sup>	682	176	379	316	—	40	<b>1,593</b>	872
	<b>\$7,065</b>	<b>\$ 287</b>	<b>\$3,569</b>	<b>\$ 2,290</b>	<b>\$ 434</b>	<b>\$1,022</b>	<b>\$14,667</b>	<b>\$8,315</b>
<b>Latin America</b>								
Brazil	\$ 525	\$ —	\$1,039	\$ 317	\$ —	\$ 7	<b>\$ 1,888</b>	\$1,556
Chile	1,066	—	72	2	1,477	2	<b>2,619</b>	1,169
Costa Rica	1,096	—	145	—	495	—	<b>1,736</b>	984
Peru	310	—	144	—	1,300	1	<b>1,755</b>	746
El Salvador	482	—	9	—	425	—	<b>916</b>	524
Venezuela	7	—	—	—	111	—	<b>118</b>	88
Other <sup>(3)</sup>	1,172	30	104	22	—	18	<b>1,346</b>	674
	<b>\$4,658</b>	<b>\$ 30</b>	<b>\$1,513</b>	<b>\$ 341</b>	<b>\$ 3,808</b>	<b>\$ 28</b>	<b>\$10,378</b>	<b>\$5,741</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.

(3) Includes Argentina, Colombia, Panama and Uruguay.

### T44 Loans and acceptances by type of borrower

Excludes reverse repos

As at September 30 (\$ billions)

	2008		2007	2006
	Balance	% of total		
<b>Loans to households</b>				
Residential mortgages	\$115.6	40.1%	\$100.9	\$ 88.2
Credit cards	10.8	3.7	10.0	9.1
Personal loans	38.4	13.3	31.4	29.4
	<b>164.8</b>	<b>57.1</b>	<b>142.3</b>	<b>126.7</b>
<b>Loans to businesses and governments</b>				
Financial services	28.0	9.7	17.1	13.0
Wholesale and retail	14.7	5.1	11.5	10.2
Real estate and construction	13.2	4.6	8.7	7.0
Oil and gas	7.8	2.7	6.8	5.2
Transportation	7.4	2.6	5.2	4.9
Automotive	5.8	2.0	4.7	4.7
Agriculture	4.7	1.6	3.8	3.4
Government	3.0	1.1	2.3	3.4
Hotels and leisure	4.2	1.4	3.3	3.4

Mining and primary metals	6.1	2.1	4.2	3.1
Utilities	4.4	1.5	2.0	2.9
Health care	3.7	1.3	2.9	2.9
Telecommunications and cable	4.3	1.5	2.6	2.5
Media	2.8	1.0	2.5	2.4
Chemical	3.1	1.1	2.0	2.2
Food and beverage	2.7	0.9	2.3	2.2
Forest products	1.7	0.6	1.8	1.5
Other	7.4	2.6	5.9	4.5
	<b>125.0</b>	<b>43.4</b>	89.6	79.4
	<b>289.8</b>	<b>100.5</b>	231.9	206.1
General allowance <sup>(1)</sup>	<b>(1.3)</b>	<b>(0.5)</b>	(1.3)	(1.3)
<b>Total loans and acceptances</b>	<b>\$288.5</b>	<b>100.0%</b>	\$230.6	\$204.8

(1) As at October 31.

## Management's Discussion and Analysis

### T45 Off-balance sheet credit instruments

As at October 31 (\$ billions)	2008	2007	2006	2005	2004
Commitments to extend credit	\$ 130.2	\$ 114.3	\$ 105.9	\$ 99.9	\$ 104.2
Standby letters of credit and letters of guarantee	27.8	18.4	18.5	15.8	14.4
Securities lending, securities purchase commitments and other	12.8	13.8	13.0	9.3	4.8
<b>Total</b>	<b>\$ 170.8</b>	<b>\$ 146.5</b>	<b>\$ 137.4</b>	<b>\$ 125.0</b>	<b>\$ 123.4</b>

### T46 Changes in net impaired loans

For the fiscal years (\$ millions)	2008	2007	2006	2005	2004
<b>Gross impaired loans</b>					
Balance at beginning of year	\$ 1,544	\$ 1,870	\$ 1,820	\$ 2,200	\$ 3,241
Net additions					
New additions	2,158	1,338	1,262	1,263	1,774
Declassifications, payments and loan sales	(846)	(891)	(956)	(1,034)	(1,680)
	1,312	447	306	229	94
Acquisition of subsidiaries	341	33	340	64	—
Writeoffs					
Residential mortgages	(59)	(5)	(5)	(6)	(7)
Personal loans	(424)	(301)	(214)	(237)	(198)
Credit cards	(268)	(183)	(150)	(130)	(145)
Business and government	(129)	(209)	(174)	(277)	(632)
	(880)	(698)	(543)	(650)	(982)
Foreign exchange and other	177	(108)	(53)	(23)	(153)
Balance at end of year	2,494	1,544	1,870	1,820	2,200
<b>Specific allowance for credit losses</b>					
Balance at beginning of year	943	1,300	1,139	1,321	1,719
Acquisition of subsidiaries	232	38	323	59	—
Specific provision for credit losses	630	295	276	275	490
Writeoffs	(880)	(698)	(543)	(650)	(982)
Recoveries by portfolio					
Residential mortgages	34	4	3	1	2
Personal loans	73	73	71	75	78
Credit cards	45	35	37	32	32
Business and government	79	74	70	97	46
	231	186	181	205	158
Foreign exchange and other <sup>(1)</sup>	147	(178)	(76)	(71)	(64)
Balance at end of year	1,303	943	1,300	1,139	1,321
<b>Net impaired loans</b>					
Balance at beginning of year	601	570	681	879	1,522
Net change in gross impaired loans	950	(326)	50	(380)	(1,041)
Net change in specific allowance for credit losses	(360)	357	(161)	182	398
Balance at end of year	1,191	601	570	681	879
General allowance for credit losses	1,323	1,298	1,307	1,330	1,375
Balance after deducting general allowance	\$ (132)	\$ (697)	\$ (737)	\$ (649)	\$ (496)

- (1) Includes \$3 transferred from other liabilities in 2008, \$5 transferred to other liabilities in 2006, \$2 transferred from other liabilities in 2005, and \$23 reclassified from country risk allowance and \$8 transferred to other liabilities in 2004.

## T47 Provisions for credit losses

For the fiscal years (\$ millions)	2008	2007	2006	2005	2004
Specific provisions for credit losses					
Gross specific provisions	\$ 1,084	\$ 720	\$ 746	\$ 875	\$ 912
Reversals	(223)	(239)	(289)	(395)	(264)
Recoveries	(231)	(186)	(181)	(205)	(158)
Net specific provisions for credit losses	630	295	276	275	490
General provision	—	(25)	(60)	(45)	(100)
<b>Total net provisions for credit losses</b>	<b>\$ 630</b>	<b>\$ 270</b>	<b>\$ 216</b>	<b>\$ 230</b>	<b>\$ 390</b>

## T48 Specific provisions for credit losses by type of borrower

For the fiscal years (\$ millions)	2008	2007	2006
<b>Personal</b>			
Residential mortgages	\$ —	\$ (9)	\$ 10
Other personal loans	636	449	283
	<b>636</b>	<b>440</b>	<b>293</b>
<b>Businesses and governments</b>			
Financial services	7	(10)	—
Wholesale and retail	0	(39)	5
Real estate and construction	(69)	(11)	(7)
Oil and gas	43	(1)	—
Transportation	(15)	(9)	4
Automotive	5	1	11
Agriculture	5	(4)	2
Government	(18)	2	(6)
Hotels and leisure	(4)	(5)	(21)
Mining and primary metals	(16)	(4)	(10)
Utilities	(2)	(18)	(21)
Health care	2	(1)	2
Telecommunications and cable	(3)	(5)	(14)
Media	11	(13)	(4)
Chemical	7	(22)	13
Food and beverage	(17)	(6)	7
Forest products	3	—	(1)
Other	55	—	23
	<b>(6)</b>	<b>(145)</b>	<b>(17)</b>
<b>Total specific provisions</b>	<b>\$ 630</b>	<b>\$ 295</b>	<b>\$ 276</b>

## Management's Discussion and Analysis

### T49 Non-performing loans by type of borrower

Excluding reverse repos As at October 31 (\$ millions)	2008			2007		
	Net	Allowance for credit losses	Gross	Net	Allowance for credit losses	Gross
<b>Personal</b>						
Residential mortgages	\$ 432	\$ (232)	\$ 664	\$ 189	\$ (40)	\$ 229
Other personal loans	84	(608)	692	57	(527)	584
	516	(840)	1,356	246	(567)	813
<b>Businesses and governments</b>						
Financial services	13	(28)	41	14	(7)	21
Wholesale and retail	60	(65)	125	71	(87)	158
Real estate and construction	216	(72)	288	62	(58)	120
Oil and gas	99	(11)	110	20	—	20
Transportation	17	(25)	42	15	(23)	38
Automotive	28	(3)	31	4	(12)	16
Agriculture	26	(58)	84	21	(25)	46
Government	(27)	(30)	3	12	(27)	39
Hotels and leisure	124	(8)	132	11	(7)	18
Mining and primary metals	15	(18)	33	36	(32)	68
Utilities	—	—	—	1	(2)	3
Health care	6	(5)	11	7	(9)	16
Telecommunications and cable	7	(9)	16	—	(4)	4
Media	1	(8)	9	—	(6)	6
Chemical	8	(2)	10	—	(8)	8
Food and beverage	11	(5)	16	22	(10)	32
Forest products	12	(8)	20	13	(15)	28
Other	59	(108)	167	46	(44)	90
	675	(463)	1,138	355	(376)	731
	1,191	(1,303)	2,494	601	(943)	1,544
Allowance for credit losses — general	(1,323)	—	—	(1,298)	—	—
Net impaired loans after general allowance	\$ (132)	\$ (1,303)	\$ 2,494	\$ (697)	\$ (943)	\$ 1,544

### T50 Total credit risk exposures by geography <sup>(1,2)</sup>

As at October 31 (\$ millions)	Drawn	Undrawn	Other exposures <sup>(3)</sup>	Total
<b>Canada</b>	\$199,672	\$44,376	\$ 34,722	<b>\$278,770</b>
<b>United States</b>	34,262	17,949	37,240	<b>89,451</b>
<b>Mexico</b>	13,858	332	947	<b>15,137</b>
<b>Other International</b>				
Europe	26,298	4,637	8,551	<b>39,486</b>
Caribbean	27,085	1,632	2,071	<b>30,788</b>
Latin America	20,751	844	1,058	<b>22,653</b>
Other	24,192	2,640	3,124	<b>29,956</b>
<b>Total</b>	<b>\$346,118</b>	<b>\$72,410</b>	<b>\$ 87,713</b>	<b>\$506,241</b>

(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.

**T51** AIRB credit risk exposures by maturity<sup>(1, 2)</sup>

As at October 31 (\$ millions)

Residual Maturity	Drawn	Undrawn	Other exposures <sup>(3)</sup>	Total
<b>Non-retail</b>				
Less than 1 year	\$ 43,663	\$21,306	\$ 37,508	<b>\$102,477</b>
One to 5 years	50,000	34,386	41,232	<b>125,618</b>
Over 5 years	10,975	1,610	6,065	<b>18,650</b>
<b>Total non-retail</b>	<b>\$104,638</b>	<b>\$57,302</b>	<b>\$ 84,805</b>	<b>\$246,745</b>
<b>Retail</b>				
Less than 1 year	\$ 13,710	\$10,391	\$ —	<b>\$ 24,101</b>
One to 5 years	90,120	—	—	<b>90,120</b>
Over 5 years	1,782	—	—	<b>1,782</b>
Revolving credits <sup>(4)</sup>	27,849	—	—	<b>27,849</b>
<b>Total retail</b>	<b>\$133,461</b>	<b>\$10,391</b>	<b>\$ —</b>	<b>\$143,852</b>
<b>Total</b>	<b>\$238,099</b>	<b>\$67,693</b>	<b>\$ 84,805</b>	<b>\$390,597</b>

- (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.

T52

## Total credit risk exposures and risk-weighted assets

As at October 31 (\$ millions)	Basel II 2008			Total Risk-weighted assets <sup>(1)</sup>	Basel I 2007
	Exposure at Default <sup>(2)</sup>				Total Risk-weighted assets <sup>(4)</sup>
	AIRB	Standardized <sup>(3)</sup>	Total		
Non-retail					
Corporate					
Drawn	\$ 68,056	\$ 49,593	\$117,649	\$ 95,688	
Undrawn	39,864	4,079	43,943	24,886	
Other <sup>(5)</sup>	14,314	2,542	16,856	8,615	
	122,234	56,214	178,448	129,189	
Bank					
Drawn	23,710	9,276	32,986	7,284	
Undrawn	16,477	109	16,586	3,056	
Other <sup>(5)</sup>	16,226	361	16,587	2,860	
	56,413	9,746	66,159	13,200	
Sovereign					
Drawn	12,872	11,754	24,626	2,533	
Undrawn	961	309	1,270	210	
Other <sup>(5)</sup>	1,275	5	1,280	67	
	15,108	12,068	27,176	2,810	
Total Non-retail					
Drawn	104,638	70,623	175,261	105,505	87,244
Undrawn	57,302	4,497	61,799	28,152	17,598
Other <sup>(5)</sup>	31,815	2,908	34,723	11,542	11,785
	\$193,755	\$ 78,028	\$271,783	\$ 145,199	\$ 116,627
Retail					
Retail residential mortgages					
Drawn	\$ 97,012	\$ 23,697	\$120,709	\$ 9,409	\$ 34,257
Undrawn	3,292	—	3,292	33	—
	100,304	23,697	124,001	9,442	34,257
Home equity lines of credit (HELOCs)					
Drawn	14,644	—	14,644	544	6,674
Undrawn	—	—	—	—	—
	14,644	—	14,644	544	6,674
Qualifying retail revolving exposures (QRRE)					
Drawn	12,051	—	12,051	4,005	10,861
Undrawn	7,076	—	7,076	756	—
	19,127	—	19,127	4,761	10,861
Other retail					
Drawn	9,754	13,699	23,453	14,087	16,787
Undrawn	23	220	243	187	—
	9,777	13,919	23,696	14,274	16,787

MD &amp; A

Supplementary Data



<b>Total Retail</b>					
Drawn	133,461	37,396	170,857	28,045	68,579
Undrawn	10,391	220	10,611	976	—
	<b>\$143,852</b>	<b>\$ 37,616</b>	<b>\$181,468</b>	<b>\$ 29,021</b>	<b>\$ 68,579</b>
Securitization exposures	28,539	—	28,539	4,354	6,311
Trading derivatives	24,451	—	24,451	8,595	5,515
<b>Sub-total</b>	<b>\$390,597</b>	<b>\$ 115,644</b>	<b>\$506,241</b>	<b>\$ 187,169</b>	<b>\$ 197,032</b>
Equities	3,375	—	3,375	6,142	3,179
Other assets	—	21,929	21,929	14,215	8,087
<b>Total credit risk, before scaling factor</b>	<b>\$393,972</b>	<b>\$ 137,573</b>	<b>\$531,545</b>	<b>\$ 207,526</b>	<b>\$ 208,298</b>
Add-on for 6% scaling factor <sup>(6)</sup>	—	—	—	6,946	—
<b>Total credit risk</b>	<b>\$393,972</b>	<b>\$ 137,573</b>	<b>\$531,545</b>	<b>\$ 214,472</b>	<b>\$ 208,298</b>

- (1) Effective November 1, 2007, risk-weighted assets are determined in accordance with Basel II rules. Comparative amounts for prior year are determined in accordance with Basel I rules.
- (2) Outstanding amount for on-balance sheet exposures and loan equivalent amount for off-balance sheet exposures, before credit risk mitigation.
- (3) Net of specific allowances for credit losses.
- (4) Breakdown of Basel I risk-weighted assets for non-retail exposures by counterparty type (corporate, bank, sovereign) not available.
- (5) 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.
- (6) Basel Committee imposed scaling factor (6%) on risk-weighted assets for Internal ratings-based credit risk portfolios.

## Management's Discussion and Analysis

### Capital

#### **T53** Capital funding activity

Issues		Maturities/Redemptions/Repurchase	
Tier 1 Capital		Tier 1 Capital	
Preferred shares			
January 31, 2008	\$230,000,000 Series 17 Non-cumulative Fixed Rate Preferred Shares		
March 25, 2008	\$300,000,000 Series 18 Non-cumulative 5-Year Rate Reset Preferred Shares		
March 27, 2008	\$45,000,000 Series 18 Non-cumulative 5-Year Rate Reset Preferred Shares		
June 10, 2008	\$350,000,000 Series 20 Non-cumulative 5-Year Rate Reset Preferred Shares		
September 9, 2008	\$300,000,000 Series 22 Non-cumulative 5-Year Rate Reset Preferred Shares		
Tier 2 Capital		Tier 2 Capital	
Subordinated debt		Subordinated debt	
November 20, 2007	¥10,000,000,000 3.015% Subordinated Callable Notes due November 20, 2037	July 22, 2008	\$425,000,000 5.65% debentures due July 22, 2013
January 31, 2008	\$300,000,000 5.30% debentures due January 31, 2018	September 15, 2008	US\$250,000,000 6.25% debentures due September 15, 2008
March 27, 2008	\$1,700,000,000 4.99% debentures due March 27, 2018		
April 9, 2008	¥10,000,000,000 3.370% Subordinated Callable Notes due April 9, 2038		
October 3, 2008	\$950,000,000 6.00% debentures due October 3, 2018		

## Revenues and expenses

### T54 Volume/rate analysis of changes in net interest income

Taxable equivalent basis <sup>(1)</sup> For the fiscal years (\$ millions)	2008 versus 2007 Increase (decrease) due to change in:			2007 versus 2006 Increase (decrease) due to change in:		
	Average volume	Average rate	Net change	Average volume	Average rate	Net change
<b>Net interest income</b>						
Total earning assets	\$ 2,118	\$ (952)	\$1,166	\$ 2,788	\$ 656	\$ 3,444
Total interest-bearing liabilities	(1,396)	591	(805)	(1,773)	(890)	(2,663)
Change in net interest income	\$ 722	\$ (361)	\$ 361	\$ 1,015	\$ (234)	\$ 781

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

### T55 Taxes

For the fiscal years (\$ millions)	2008	2007	2006	2005	2004	2008 versus 2007
<b>Income taxes</b>						
Provision for income taxes	\$ 691	\$1,063	\$ 872	\$ 847	\$ 786	(35)%
Taxable equivalent adjustment <sup>(1)</sup>	416	531	440	326	274	(22)
Provision for income taxes (TEB) <sup>(1)</sup>	1,107	1,594	1,312	1,173	1,060	(31)
<b>Other taxes</b>						
Payroll taxes	177	164	152	137	139	8
Business and capital taxes	116	143	133	147	142	(19)
Goods and services and other	129	143	128	132	121	(10)
Total other taxes	422	450	413	416	402	(6)
Total income other and taxes <sup>(2)</sup>	\$1,529	\$2,044	\$1,725	\$1,589	\$1,462	(25)%
Net income before income taxes	\$3,950	\$5,226	\$4,549	\$4,127	\$3,769	(24)%
Effective income tax rate (%)	17.5	20.3	19.2	20.5	20.8	(2.8)
Effective income tax rate (TEB) (%) <sup>(3)</sup>	25.4	27.7	26.3	26.3	26.2	(2.3)
Total tax rate (%) <sup>(4)</sup>	25.5	26.7	25.9	27.8	28.5	(1.2)

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 27.

(2) Comprising \$569 of Canadian taxes (2007 — \$1,175; 2006 — \$1,035; 2005 — \$988; 2004 — \$910) and \$960 of foreign taxes (2007 — \$869; 2006 — \$690; 2005 — \$601; 2004 — \$552).

(3) Provision for income tax, expressed on a taxable equivalent basis, as a percentage of net income before income taxes.

(4) Total income and other taxes as a percentage of net income before income and other taxes.

## Management's Discussion and Analysis

### Other information

#### **T56** Components of net income as a percentage of average total assets<sup>(1)</sup>

Taxable equivalent basis For the fiscal years (%)	2008	2007	2006	2005	2004
Net interest income	1.75%	1.89%	1.95%	2.00%	2.10%
Provision for credit losses	(0.14)	(0.07)	(0.06)	(0.07)	(0.14)
Other income	0.95	1.34	1.37	1.46	1.52
Net interest and other income	2.56	3.16	3.26	3.39	3.48
Non-interest expenses	(1.60)	(1.73)	(1.84)	(1.95)	(2.06)
Net income before the undernoted:	0.96	1.43	1.42	1.44	1.42
Provision for income taxes and non- controlling interest	(0.27)	(0.43)	(0.40)	(0.40)	(0.40)
Net income	0.69%	1.00%	1.02%	1.04%	1.02%
<b>Average total assets (\$ billions)</b>	<b>\$455.5</b>	<b>\$403.5</b>	<b>\$350.7</b>	<b>\$309.4</b>	<b>\$284.0</b>

(1) Income from tax-exempt securities has been expressed on an equivalent before-tax basis. The provision for income taxes has been adjusted by a corresponding amount: 2008 — \$416 million; 2007 — \$531 million; 2006 — \$440 million; 2005 — \$326 million; 2004 — \$274 million.

#### **T57** General allowance and unrealized gains (losses) on available-for-sale securities

As at October 31 (\$ millions)	2008	2007	2006	2005	2004
General allowance	\$ 1,323	\$ 1,298	\$ 1,307	\$ 1,330	\$ 1,375
<b>Unrealized gains (losses) on available-for-sale securities</b>					
Common and preferred shares	\$ (271)	\$ 456	\$ 521	\$ 506	\$ 516
Emerging market bonds	135	277	316	286	358
Other fixed income	(1,092)	239	254	367	480
	<b>\$ (1,228)</b>	<b>\$ 972</b>	<b>\$ 1,091</b>	<b>\$ 1,159</b>	<b>\$ 1,354</b>

(1) Prior to 2007, available-for-sale securities were classified as investment securities.

#### **T58** Assets under administration and management

As at September 30 (\$ billions)	2008	2007	2006	2005	2004
<b>Assets under administration</b>					
Personal					
Retail brokerage	\$ 74.3	\$ 77.4	\$ 69.7	\$ 64.2	\$ 54.2
Investment management and trust	55.8	53.1	59.5	57.0	53.4
	<b>130.1</b>	<b>130.5</b>	<b>129.2</b>	<b>121.2</b>	<b>107.6</b>
Mutual funds	27.9	24.8	19.8	18.4	15.8
Institutional	45.1	39.8	42.9	31.8	33.4
<b>Total</b>	<b>\$ 203.1</b>	<b>\$ 195.1</b>	<b>\$ 191.9</b>	<b>\$ 171.4</b>	<b>\$ 156.8</b>

#### **Assets under management**

Personal	\$ 12.5	\$ 11.2	\$ 10.0	\$ 9.4	\$ 7.5
Mutual funds	19.6	15.9	13.2	13.4	11.8
Institutional	4.6	4.3	4.6	3.8	1.9
<b>Total</b>	<b>\$ 36.7</b>	<b>\$ 31.4</b>	<b>\$ 27.8</b>	<b>\$ 26.6</b>	<b>\$ 21.2</b>



## Fees paid to the shareholders' auditors

For the fiscal years (\$ millions)	2008	2007
Audit services	\$ 13.9	\$ 13.4
Audit-related services	0.8	0.4
Tax services outside of the audit scope	0.1	0.2
Other non-audit services	0.4	0.3
	<b>\$ 15.2</b>	<b>\$ 14.3</b>

As at and for the quarter ended	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Operating results</b>								
(\$ millions)								
Net interest income	1,941	1,946	1,873	1,814	1,716	1,812	1,794	1,776
Net interest income (TEB <sup>(1)</sup> )	2,036	2,049	1,973	1,932	1,932	1,913	1,903	1,881
Total revenue	2,491	3,374	3,172	2,839	3,078	3,201	3,102	3,109
Total revenue (TEB <sup>(1)</sup> )	2,586	3,477	3,272	2,957	3,294	3,302	3,211	3,214
Provision for credit losses	207	159	153	111	95	92	20	63
Non-interest expenses	1,944	1,889	1,794	1,669	1,792	1,752	1,726	1,724
Provision for income taxes	2	287	209	193	204	296	286	277
Provision for income taxes (TEB <sup>(1)</sup> )	97	390	309	311	420	397	395	382
Net income	315	1,010	980	835	954	1,032	1,039	1,020
Net income available to common shareholders	283	978	958	814	938	1,016	1,028	1,012
<b>Operating performance</b>								
Basic earnings per share (\$)	0.28	0.99	0.97	0.83	0.95	1.03	1.04	1.02
Diluted earnings per share (\$)	0.28	0.98	0.97	0.82	0.95	1.02	1.03	1.01
Return on equity (%) <sup>(2)</sup>	6.0	21.0	21.4	18.3	21.0	21.7	22.4	22.1
Productivity ratio (%) (TEB <sup>(1)</sup> )	75.2	54.3	54.8	56.5	54.4	53.0	53.8	53.6
Net interest margin on total average assets (%) (TEB <sup>(1)</sup> )	1.68	1.79	1.76	1.79	1.87	1.86	1.93	1.91
<b>Balance sheet information</b>								
(\$ billions)								
Cash resources and securities	125.4	124.1	129.7	130.9	118.0	121.6	131.3	126.9
Loans and acceptances <sup>(2)</sup>	300.6	283.7	267.9	260.5	238.7	233.0	226.3	222.7
Total assets	507.6	462.4	452.6	449.4	411.5	408.1	411.7	396.5
Deposits	346.6	332.5	322.4	316.8	288.4	287.0	291.6	277.0
Preferred shares	2.9	2.6	2.2	1.9	1.6	1.3	1.3	0.9
Common shareholders' equity <sup>(2)</sup>	18.8	18.8	18.2	18.1	17.2	18.4	18.7	18.9
Assets under administration	203.1	207.4	202.3	195.2	195.1	198.8	208.4	203.1
Assets under management	36.7	37.8	32.9	31.7	31.4	31.0	30.4	29.2
<b>Capital measures (%)<sup>(3)</sup></b>								
Tier 1 capital ratio	9.3	9.8	9.6	9.0	9.3	9.7	10.1	10.4
Total capital ratio	11.1	11.5	11.7	10.2	10.5	10.6	11.4	11.7
Common equity to risk-weighted assets	8.3	8.6	8.6	7.8	7.8	8.3	8.6	9.0
Tangible common equity to risk-weighted assets <sup>(1)</sup>	7.3	7.6	7.5	7.2	7.2	7.7	8.0	8.4

Risk-weighted assets (\$ billions)	250.6	225.8	218.9	234.9	218.3	219.8	213.1	206.8
<b>Credit quality</b>								
Net impaired loans <sup>(4)</sup> (\$ millions)	1,191	1,009	845	689	601	584	579	579
General allowance for credit losses (\$ millions)	1,323	1,323	1,323	1,298	1,298	1,298	1,298	1,323
Net impaired loans as a % of loans and acceptances <sup>(2)(4)</sup>	0.40	0.36	0.32	0.26	0.25	0.25	0.26	0.26
Specific provision for credit losses as a % of average loans and acceptances (annualized) <sup>(2)</sup>	0.29	0.23	0.24	0.18	0.16	0.16	0.08	0.12
<b>Common share information</b>								
Share price (\$)								
High	51.55	52.51	50.00	54.00	53.49	54.67	54.73	53.39
Low	35.25	41.95	42.00	43.10	46.70	48.91	49.34	48.80
Close	40.19	49.98	47.82	48.19	53.48	49.45	53.39	50.76
Shares outstanding (millions)								
Average — Basic	990	989	986	985	983	988	992	991
Average — Diluted	994	994	992	992	991	996	1,001	1,001
End of period	992	990	987	985	984	982	990	993
Dividends per share (\$)	0.49	0.49	0.47	0.47	0.45	0.45	0.42	0.42
Dividend yield (%)	4.5	4.1	4.1	3.9	3.6	3.5	3.2	3.3
Market capitalization (\$ billions)	39.9	49.5	47.2	47.5	52.6	48.6	52.8	50.4
Book value per common share (\$)	18.94	18.99	18.45	18.40	17.45	18.71	18.90	18.99
Market value to book value multiple	2.1	2.6	2.6	2.6	3.1	2.6	2.8	2.7
Price to earnings multiple (trailing 4 quarters)	13.1	13.4	12.7	12.5	13.2	12.4	13.7	13.5

(1) Non-GAAP measure. Refer to the non-GAAP measures on page 27.

(2) Certain comparative amounts have 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) Net impaired loans are impaired loans less the specific allowance for credit losses.

(5) Represents common dividends for the period as a percentage of the net income available to common shareholders for the period.

## Management's Discussion and Analysis

### Eleven-year statistical review

#### **T61** Consolidated Balance Sheet

As at October 31 (\$ millions)	2008	2007	2006	2005
<b>Assets</b>				
<b>Cash resources</b>	<b>\$ 37,318</b>	<b>\$ 29,195</b>	<b>\$ 23,376</b>	<b>\$ 20,505</b>
<b>Securities</b>				
Trading	48,292	59,685	62,490	50,007
Available-for-sale	38,823	28,426	—	—
Investment	—	—	32,870	23,285
Equity accounted investments	920	724	142	167
	<b>88,035</b>	<b>88,835</b>	<b>95,502</b>	<b>73,459</b>
<b>Securities purchased under resale agreements</b>	<b>19,451</b>	<b>22,542</b>	<b>25,705</b>	<b>20,578</b>
<b>Loans</b>				
Residential mortgages	115,084	102,154	89,590	75,520
Personal and credit cards	50,719	41,734	39,058	34,695
Business and government	125,503	85,500	76,733	62,681
	<b>291,306</b>	<b>229,388</b>	<b>205,381</b>	<b>172,896</b>
Allowance for credit losses	2,626	2,241	2,607	2,469
	<b>288,680</b>	<b>227,147</b>	<b>202,774</b>	<b>170,427</b>
<b>Other</b>				
Customers' liability under acceptances	11,969	11,538	9,555	7,576
Derivative instruments <sup>(1)</sup>	44,810	21,960	12,098	12,867
Land, buildings and equipment	2,688	2,271	2,256	1,934
Other assets <sup>(1)</sup>	14,674	8,022	7,740	6,679
	<b>74,141</b>	<b>43,791</b>	<b>31,649</b>	<b>29,056</b>
	<b>\$507,625</b>	<b>\$411,510</b>	<b>\$379,006</b>	<b>\$314,025</b>
<b>Liabilities and shareholders' equity</b>				
<b>Deposits</b>				
Personal	\$118,919	\$100,823	\$ 93,450	\$ 83,953
Business and government	200,566	161,229	141,072	109,389
Banks	27,095	26,406	29,392	24,103
	<b>346,580</b>	<b>288,458</b>	<b>263,914</b>	<b>217,445</b>
<b>Other</b>				
Acceptances	11,969	11,538	9,555	7,576
Obligations related to securities sold under repurchase agreements	36,506	28,137	33,470	26,032
Obligations related to securities sold short	11,700	16,039	13,396	11,250
Derivative instruments <sup>(1)</sup>	42,811	24,689	12,869	13,004
Other liabilities <sup>(1)</sup>	31,063	21,138	24,799	18,983
Non-controlling interest in subsidiaries	502	497	435	306
	<b>134,551</b>	<b>102,038</b>	<b>94,524</b>	<b>77,151</b>
<b>Subordinated debentures</b>	<b>4,352</b>	<b>1,710</b>	<b>2,271</b>	<b>2,597</b>
<b>Capital instrument liabilities</b>	<b>500</b>	<b>500</b>	<b>750</b>	<b>750</b>
<b>Shareholders' equity</b>				
Capital stock				
Preferred shares	2,860	1,635	600	600
Common shares and contributed surplus	3,829	3,566	3,425	3,317
Retained earnings	18,549	17,460	15,843	14,126
Accumulated other comprehensive income (loss)	(3,596)	(3,857)	(2,321)	(1,961)



	<b>21,642</b>	18,804	17,547	16,082
	<b>\$507,625</b>	\$411,510	\$379,006	\$314,025

- 
- (1) Amounts for years prior to 2004 have not been reclassified to conform with current period presentation as the information is not readily available.

2004	2003	2002	2001	2000	1999	1998
\$ 17,155	\$ 20,581	\$ 20,273	\$ 20,160	\$ 18,744	\$ 17,115	\$ 22,900
43,056	42,899	34,592	27,834	21,821	13,939	12,108
—	—	—	—	—	—	—
15,576	20,141	21,439	25,256	19,162	19,480	16,718
141	152	163	194	403	550	674
58,773	63,192	56,194	53,284	41,386	33,969	29,500
17,880	22,648	32,262	27,500	23,559	13,921	11,189
69,018	61,646	56,295	52,592	50,037	47,916	45,884
30,182	26,277	23,363	20,116	17,988	16,748	18,801
57,384	64,313	77,181	79,460	78,172	69,873	76,542
156,584	152,236	156,839	152,168	146,197	134,537	141,227
2,696	3,217	3,430	4,236	2,853	2,599	1,934
153,888	149,019	153,409	147,932	143,344	131,938	139,293
7,086	6,811	8,399	9,301	8,807	9,163	8,888
15,488	15,308	15,821	15,886	8,244	8,039	13,675
1,872	1,944	2,101	2,325	1,631	1,681	1,759
7,070	6,389	7,921	8,037	7,456	6,865	6,384
31,516	30,452	34,242	35,549	26,138	25,748	30,706
\$279,212	\$285,892	\$296,380	\$284,425	\$253,171	\$222,691	\$233,588
\$ 79,020	\$ 76,431	\$ 75,558	\$ 75,573	\$ 68,972	\$ 65,715	\$ 62,656
94,125	93,541	93,830	80,810	76,980	64,070	70,779
22,051	22,700	26,230	29,812	27,948	26,833	32,925
195,196	192,672	195,618	186,195	173,900	156,618	166,360
7,086	6,811	8,399	9,301	8,807	9,163	8,888
19,428	28,686	31,881	30,627	23,792	16,781	14,603
7,585	9,219	8,737	6,442	4,297	2,833	3,121
16,002	14,758	15,500	15,453	8,715	8,651	14,360
13,785	14,145	15,678	15,369	14,586	11,667	9,787
280	326	662	586	229	198	173
64,166	73,945	80,857	77,778	60,426	49,293	50,932
2,615	2,661	3,878	5,344	5,370	5,374	5,482
2,250	2,500	2,225	1,975	1,975	1,475	1,475
300	300	300	300	300	300	300
3,229	3,141	3,002	2,920	2,765	2,678	2,625
13,239	11,747	10,398	9,674	8,275	6,956	6,257
(1,783)	(1,074)	102	239	160	(3)	157
14,985	14,114	13,802	13,133	11,500	9,931	9,339
\$279,212	\$285,892	\$296,380	\$284,425	\$253,171	\$222,691	\$233,588

## Management's Discussion and Analysis

### **T62** Consolidated Statement of Income

For the year ended October 31  
(\$ millions)

	2008	2007	2006	2005
<b>Interest income</b>				
Loans	\$15,832	\$13,985	\$11,575	\$ 9,236
Securities	4,615	4,680	4,124	3,104
Securities purchased under resale agreements	786	1,258	1,102	817
Deposits with banks	1,083	1,112	881	646
	<b>22,316</b>	<b>21,035</b>	<b>17,682</b>	<b>13,803</b>
<b>Interest expenses</b>				
Deposits	12,131	10,850	8,589	5,755
Subordinated debentures	166	116	130	134
Capital instrument liabilities	37	53	53	53
Other	2,408	2,918	2,502	1,990
	<b>14,742</b>	<b>13,937</b>	<b>11,274</b>	<b>7,932</b>
Net interest income	7,574	7,098	6,408	5,871
Provision for credit losses	630	270	216	230
Net interest income after provision for credit losses	6,944	6,828	6,192	5,641
Other income	4,302	5,392	4,800	4,529
Net interest and other income	<b>11,246</b>	<b>12,220</b>	<b>10,992</b>	<b>10,170</b>
<b>Non-interest expenses</b>				
Salaries and employee benefits	4,109	3,983	3,768	3,488
Other <sup>(2)</sup>	3,187	3,011	2,675	2,555
Restructuring provisions following acquisitions	—	—	—	—
	<b>7,296</b>	<b>6,994</b>	<b>6,443</b>	<b>6,043</b>
Income before the undernoted	3,950	5,226	4,549	4,127
Provision for income taxes	691	1,063	872	847
Non-controlling interest in net income of subsidiaries	119	118	98	71
<b>Net income</b>	<b>\$ 3,140</b>	<b>\$ 4,045</b>	<b>\$ 3,579</b>	<b>\$ 3,209</b>
Preferred dividends paid and other	107	51	30	25
Net income available to common shareholders	<b>\$ 3,033</b>	<b>\$ 3,994</b>	<b>\$ 3,549</b>	<b>\$ 3,184</b>
Average number of common shares outstanding (millions):				
Basic	987	989	988	998
Diluted	993	997	1,001	1,012
Earnings per common share (in dollars):				
Basic	\$ 3.07	\$ 4.04	\$ 3.59	\$ 3.19
Diluted	\$ 3.05	\$ 4.01	\$ 3.55	\$ 3.15
Dividends per common share (in dollars)	\$ 1.92	\$ 1.74	\$ 1.50	\$ 1.32

(1) These financial results were prepared in accordance with Canadian GAAP, including the accounting requirements of the Superintendent of Financial Institutions, other than recording the increase in the general provision for credit losses as a direct charge to retained earnings in the fourth quarter of 1999, which was in accordance with the accounting requirements specified by the Superintendent under the Bank Act. Had the one-time increase in the general provision of \$550 before tax (\$314 after-tax) been recorded as a charge to the Consolidated Statement of Income, these financial results would have been as follows: provision for credit losses \$1,185, net income \$1,145, basic earnings per share \$1.14 and diluted earnings per share \$1.13.

(2) Other non-interest expenses include, a loss on disposal of subsidiary operations in 2003 and 2002 of \$31 and \$237, respectively.



2004	2003	2002	2001	2000	1999 <sup>(1)</sup>	1998
\$ 8,480	\$ 9,073	\$ 9,635	\$ 11,530	\$ 11,044	\$ 9,972	\$ 9,695
2,662	2,859	3,087	3,062	2,286	1,874	1,815
594	872	1,073	1,519	1,085	682	574
441	442	573	872	916	943	1,007
12,177	13,246	14,368	16,983	15,331	13,471	13,091
4,790	5,222	5,519	8,233	8,192	7,284	7,303
112	139	203	303	324	314	354
164	182	158	136	120	99	99
1,410	1,735	1,971	2,247	1,616	1,201	1,057
6,476	7,278	7,851	10,919	10,252	8,898	8,813
5,701	5,968	6,517	6,064	5,079	4,573	4,278
390	893	2,029	1,425	765	635	595
5,311	5,075	4,488	4,639	4,314	3,938	3,683
4,320	4,015	3,942	4,071	3,665	3,183	2,858
9,631	9,090	8,430	8,710	7,979	7,121	6,541
3,452	3,361	3,344	3,220	2,944	2,627	2,501
2,410	2,370	2,630	2,442	2,209	2,149	1,945
—	—	—	—	(34)	(20)	—
5,862	5,731	5,974	5,662	5,119	4,756	4,446
3,769	3,359	2,456	3,048	2,860	2,365	2,095
786	777	594	869	983	860	755
75	160	154	102	43	46	38
\$ 2,908	\$ 2,422	\$ 1,708	\$ 2,077	\$ 1,834	\$ 1,459	\$ 1,302
16	16	16	16	16	16	5
\$ 2,892	\$ 2,406	\$ 1,692	\$ 2,061	\$ 1,818	\$ 1,443	\$ 1,297
1,010	1,010	1,009	1,001	991	986	982
1,026	1,026	1,026	1,018	1,003	996	993
\$ 2.87	\$ 2.38	\$ 1.68	\$ 2.06	\$ 1.83	\$ 1.46	\$ 1.32
\$ 2.82	\$ 2.34	\$ 1.65	\$ 2.02	\$ 1.81	\$ 1.45	\$ 1.31
\$ 1.10	\$ 0.84	\$ 0.73	\$ 0.62	\$ 0.50	\$ 0.44	\$ 0.40

## Management's Discussion and Analysis

### **T63** Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 (\$ millions)	2008	2007	2006	2005
<b>Preferred shares</b>				
Balance at beginning of year	\$ 1,635	\$ 600	\$ 600	\$ 300
Issued	1,225	1,035	—	300
Balance at end of year	2,860	1,635	600	600
<b>Common shares and contributed surplus</b>				
Balance of common shares at beginning of year	3,566	3,425	3,316	3,228
Issued	266	184	135	172
Purchased for cancellation	(3)	(43)	(26)	(84)
Balance of common shares at end of year	3,829	3,566	3,425	3,316
Contributed surplus: Fair value of stock options	—	—	—	1
Total	3,829	3,566	3,425	3,317
<b>Retained earnings</b>				
Balance at beginning of year	17,460	15,843	14,126	13,239
Adjustments	—	(61) <sup>(1)</sup>	(25) <sup>(2)</sup>	—
Net income	3,140	4,045	3,579	3,209
Dividends: Preferred	(107)	(51)	(30)	(25)
Common	(1,896)	(1,720)	(1,483)	(1,317)
Purchase of shares and premium on redemption	(37)	(586)	(324)	(973)
Other	(11)	(10)	—	(7)
Balance at end of year	18,549	17,460	15,843	14,126
<b>Accumulated other comprehensive income (loss)<sup>(5)</sup></b>				
Balance at beginning of year	(3,857)	(2,321)	(1,961)	(1,783)
Cumulative effect of adopting new accounting policies	—	683	—	—
Other comprehensive income (loss)	261	(2,219)	(360)	(178)
Balance at end of year	(3,596)	(3,857)	(2,321)	(1,961)
Total shareholders' equity at end of year	\$21,642	\$18,804	\$17,547	\$16,082

### Consolidated Statement of Comprehensive income<sup>(1)</sup>

For the year ended October 31 (\$ millions)	2008	2007	2006	2005
<b>Comprehensive Income</b>				
Net income	\$ 3,140	\$ 4,045	\$ 3,579	\$ 3,209
Other comprehensive income (loss), net of income taxes:				
Net change in unrealized foreign currency translation losses	2,368	(2,228)	(360)	(178)
Net change in unrealized gains (losses) on available-for-sale securities	(1,588)	(67)	—	—
Net change in gains (losses) on derivative instruments designated as cash flow hedges	(519)	76	—	—
Other comprehensive income (loss)	261	(2,219)	(360)	(178)
Comprehensive income	\$ 3,401	\$ 1,826	\$ 3,219	\$ 3,031

(1) Results from the adoption of new financial instruments accounting standards.

(2) Cumulative effect of adoption of new stock-based compensation accounting standard.

(3) Cumulative effect of adoption of new goodwill accounting standard.

(4) Cumulative effect of adoption of new corporate income taxes accounting standard.

(5) Relates to the increase in the general allowance for credit losses as a direct change to retained earnings in the fourth quarter of 1999 (refer to footnote 1 on page 96).



2004	2003	2002	2001	2000	1999	1998
\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ —
—	—	—	—	—	—	300
300	300	300	300	300	300	300
3,140	3,002	2,920	2,765	2,678	2,625	2,567
117	163	101	155	87	53	58
(29)	(25)	(19)	—	—	—	—
3,228	3,140	3,002	2,920	2,765	2,678	2,625
1	1	—	—	—	—	—
3,229	3,141	3,002	2,920	2,765	2,678	2,625
11,747	10,398	9,674	8,275	6,956	6,257	5,358
—	—	(76) <sup>(3)</sup>	(39) <sup>(4)</sup>	—	(314) <sup>(5)</sup>	—
2,908	2,422	1,708	2,077	1,834	1,459	1,302
(16)	(16)	(16)	(16)	(16)	(16)	(5)
(1,110)	(849)	(732)	(621)	(496)	(429)	(393)
(290)	(201)	(154)	—	—	—	—
—	(7)	(6)	(2)	(3)	(1)	(5)
13,239	11,747	10,398	9,674	8,275	6,956	6,257
(1,074)	102	239	160	(3)	157	5
—	—	—	—	—	—	—
(709)	(1,176)	(137)	79	163	(160)	152
(1,783)	(1,074)	102	239	160	(3)	157
\$ 14,985	\$ 14,114	\$ 13,802	\$ 13,133	\$ 11,500	\$ 9,931	\$ 9,339

2004	2003	2002	2001	2000	1999	1998
\$ 2,908	\$ 2,422	\$ 1,708	\$ 2,077	\$ 1,834	\$ 1,459	\$ 1,302
(709)	(1,176)	(137)	79	163	(160)	152
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(709)	(1,176)	(137)	79	163	(160)	152
\$ 2,199	\$ 1,246	\$ 1,571	\$ 2,156	\$ 1,997	\$ 1,299	\$ 1,454



## Management's Discussion and Analysis

### **T64** Other statistics

For the year ended October 31	2008	2007	2006	2005
<b>Operating performance</b>				
Basic earnings per share (\$)	3.07	4.04	3.59	3.19
Diluted earnings per share (\$)	3.05	4.01	3.55	3.15
Return on equity (%) <sup>(2)</sup>	16.7	22.0	22.1	20.9
Productivity ratio (%) (TEB <sup>(2)</sup> )	59.4	53.7	55.3	56.3
Return on assets (%)	0.69	1.00	1.02	1.04
Net interest margin on total average assets (%) (TEB <sup>(2)</sup> )	1.75	1.89	1.95	2.00
<b>Capital measures<sup>(3)</sup></b>				
Tier 1 capital ratio (%)	9.3	9.3	10.2	11.1
Total capital ratio (%)	11.1	10.5	11.7	13.2
Assets to capital ratio <sup>(4)</sup>	18.0	18.2	17.1	15.1
Common equity to risk-weighted assets (%)	8.3	7.8	8.8	9.7
Tangible common equity to risk-weighted assets <sup>(2)</sup> (%)	7.3	7.2	8.3	9.3
<b>Common share information</b>				
Share price (\$):				
High	54.00	54.73	49.80	44.22
Low	35.25	46.70	41.55	36.41
Close	40.19	53.48	49.30	42.99
Number of shares outstanding (millions)	992	984	990	990
Dividends per share (\$)	1.92	1.74	1.50	1.32
Dividend yield (%) <sup>(5)</sup>	4.3	3.4	3.3	3.3
Price to earnings multiple <sup>(6)</sup>	13.1	13.2	13.7	13.5
Book value per common share (\$)	18.94	17.45	17.13	15.64
<b>Other information</b>				
Average total assets (\$ millions)	455,539	403,475	350,709	309,374
Number of branches and offices	2,672	2,331	2,191	1,959
Number of employees <sup>(7)</sup>	69,049	58,113	54,199	46,631
Number of automated banking machines	5,609	5,283	4,937	4,449

(1) If the increase in the general provision had been charged to income (refer to footnote 1 on page 86), these 1999 financial ratios would have been: return on equity 12.0%, return on assets 0.50%, basic earnings per share \$1.14, diluted earnings per share \$1.13, dividend payout 38.0% and price-to-earnings multiple 14.3.

(2) Non-GAAP measure. Refer to non-GAAP measures on page 27.

(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) Based on guidelines issued by the Superintendent, the Bank's assets to capital ratio is calculated by dividing adjusted total assets by total regulatory capital.

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

(6) Based on the closing common share price.

(7) Includes all personnel (part-time stated on a full-time equivalent basis) of the Bank and all of its subsidiaries.

2004	2003	2002	2001	2000	1999	1998
2.87	2.38	1.68	2.06	1.83	1.46 <sup>(1)</sup>	1.32
2.82	2.34	1.65	2.02	1.81	1.45 <sup>(1)</sup>	1.31
19.9	17.6	13.0	17.3	17.6	15.3 <sup>(1)</sup>	15.3
56.9	55.9	55.7	54.6	57.3	60.1	61.2
1.02	0.84	0.58	0.76	0.77	0.64 <sup>(1)</sup>	0.61
2.10	2.16	2.29	2.32	2.21	2.07	2.06
11.5	10.8	9.9	9.3	8.6	8.1	7.2
13.9	13.2	12.7	13.0	12.2	11.9	10.6
13.8	14.4	14.5	13.5	13.7	13.5	14.9
9.9	9.2	8.6	8.1	7.3	6.9	6.0
9.7	8.9	8.3	7.8	7.0	6.7	5.7
40.00	33.70	28.10	25.25	22.83	18.45	22.35
31.08	22.28	21.01	18.65	13.03	14.30	11.40
39.60	32.74	22.94	21.93	21.75	16.80	16.10
1,009	1,011	1,008	1,008	996	989	984
1.10	0.84	0.73	0.62	0.50	0.44	0.40
3.1	3.0	3.0	2.8	2.8	2.7	2.4
13.8	13.8	13.7	10.6	11.9	11.5 <sup>(1)</sup>	12.2
14.56	13.67	13.39	12.74	11.25	9.74	9.18
283,986	288,513	296,852	271,843	238,664	229,037	213,973
1,871	1,850	1,847	2,005	1,695	1,654	1,741
43,928	43,986	44,633	46,804	40,946	40,894	42,046
4,219	3,918	3,693	3,761	2,669	2,322	2,244

<DOCUMENT>  
<TYPE> EX-99.3  
<FILENAME> o42611exv99w3.htm  
<DESCRIPTION> EX 3 FINANCIAL STATEMENTS  
<TEXT>



## 2008 Consolidated Financial Statements

### Table of Contents

104	Management's Responsibility for Financial Information
105	Shareholders' Auditors' Report
106	Consolidated Balance Sheet
107	Consolidated Statement of Income
108	Consolidated Statement of Changes in Shareholders' Equity
108	Consolidated Statement of Comprehensive Income
109	Consolidated Statement of Cash Flows
110	Notes to the Consolidated Financial Statements

---

## Consolidated Financial Statements

### 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 financial statements of the Bank for each of the years in the three-year period ended October 31, 2008 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

Toronto, Canada  
December 2, 2008

**Luc Vanneste**

Executive Vice-President  
and Chief Financial Officer

## Shareholders' Auditors' Report

### To the Shareholders of The Bank of Nova Scotia

We have audited the Consolidated Balance Sheets of The Bank of Nova Scotia (the Bank) as at October 31, 2008 and 2007 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, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2008 in accordance with Canadian generally accepted accounting principles.

#### KPMG LLP

Chartered Accountants, Licensed Public Accountants  
Toronto, Canada

December 2, 2008

## Consolidated Financial Statements

### Consolidated Balance Sheet

As at October 31 (\$ millions)

2008

2007

#### Assets

##### Cash resources

Cash and non-interest-bearing deposits with banks	\$ 2,574	\$ 2,138
Interest-bearing deposits with banks	32,318	23,011
Precious metals	2,426	4,046
	<b>37,318</b>	<b>29,195</b>

##### Securities (Note 3)

Trading	48,292	59,685
Available-for-sale	38,823	28,426
Equity accounted investments	920	724
	<b>88,035</b>	<b>88,835</b>

##### Securities purchased under resale agreements

	<b>19,451</b>	<b>22,542</b>
--	---------------	---------------

##### Loans (Note 4)

Residential mortgages	115,084	102,154
Personal and credit cards	50,719	41,734
Business and government	125,503	85,500
	<b>291,306</b>	<b>229,388</b>
Allowance for credit losses (Note 5 (b))	2,626	2,241
	<b>288,680</b>	<b>227,147</b>

##### Other

Customers' liability under acceptances	11,969	11,538
Derivative instruments (Note 27 (d))	44,810	21,960
Land, buildings and equipment (Note 7)	2,688	2,271
Goodwill (Note 8)	2,273	1,134
Other intangible assets (Note 8)	282	273
Other assets (Note 9)	12,119	6,615
	<b>74,141</b>	<b>43,791</b>
	<b>\$507,625</b>	<b>\$411,510</b>

#### Liabilities and shareholders' equity

##### Deposits (Note 10)

Personal	\$118,919	\$100,823
Business and government	200,566	161,229
Banks	27,095	26,406
	<b>346,580</b>	<b>288,458</b>

##### Other

Acceptances	11,969	11,538
Obligations related to securities sold under repurchase agreements	36,506	28,137
Obligations related to securities sold short	11,700	16,039
Derivative instruments (Note 27 (d))	42,811	24,689
Other liabilities (Note 11)	31,063	21,138
Non-controlling interest in subsidiaries	502	497
	<b>134,551</b>	<b>102,038</b>

##### Subordinated debentures (Note 12)

	<b>4,352</b>	<b>1,710</b>
--	--------------	--------------

##### Capital instrument liabilities (Note 13)

	<b>500</b>	<b>500</b>
--	------------	------------

#### Shareholders' equity

Capital stock (Note 14)		
Preferred shares	2,860	1,635
Common shares	3,829	3,566
Retained earnings	<b>18,549</b>	<b>17,460</b>

Accumulated other comprehensive income (loss) (Note 16)	(3,596)	(3,857)
	<u>21,642</u>	<u>18,804</u>
	<u>\$507,625</u>	<u>\$411,510</u>

**Arthur R.A. Scace**

Chairman of the Board

**Rick Waugh**

President and Chief Executive Officer

*Certain comparative amounts have been reclassified to conform with current period presentation.*

*The accompanying notes are an integral part of these consolidated financial statements.*



## Consolidated Statement of Income

For the year ended October 31 (\$ millions)

	2008	2007 <sup>(1)</sup>	2006
<b>Interest income</b>			
Loans	\$15,832	\$13,985	\$11,575
Securities	4,615	4,680	4,124
Securities purchased under resale agreements	786	1,258	1,102
Deposits with banks	1,083	1,112	881
	<b>22,316</b>	<b>21,035</b>	<b>17,682</b>
<b>Interest expenses</b>			
Deposits	12,131	10,850	8,589
Subordinated debentures	166	116	130
Capital instrument liabilities	37	53	53
Other	2,408	2,918	2,502
	<b>14,742</b>	<b>13,937</b>	<b>11,274</b>
Net interest income	7,574	7,098	6,408
Provision for credit losses (Note 5 (b))	630	270	216
Net interest income after provision for credit losses	<b>6,944</b>	<b>6,828</b>	<b>6,192</b>
<b>Other income</b>			
Card revenues	397	366	307
Deposit and payment services	862	817	766
Mutual funds	317	296	241
Investment management, brokerage and trust services	760	760	666
Credit fees	579	530	530
Trading revenues	188	450	637
Investment banking	716	737	659
Net gain (loss) on securities, other than trading (Note 3 (c))	(374)	488	371
Other	857	948	623
	<b>4,302</b>	<b>5,392</b>	<b>4,800</b>
Net interest and other income	<b>11,246</b>	<b>12,220</b>	<b>10,992</b>
<b>Non-interest expenses</b>			
Salaries and employee benefits <sup>(2)</sup>	4,109	3,983	3,768
Premises and technology	1,451	1,353	1,214
Communications	326	300	276
Advertising and business development	320	311	232
Professional	227	227	174
Business and capital taxes	116	143	133
Other	747	677	646
	<b>7,296</b>	<b>6,994</b>	<b>6,443</b>
Income before the undernoted	<b>3,950</b>	<b>5,226</b>	<b>4,549</b>
Provision for income taxes (Note 18)	691	1,063	872
Non-controlling interest in net income of subsidiaries	119	118	98
<b>Net income</b>	<b>\$ 3,140</b>	<b>\$ 4,045</b>	<b>\$ 3,579</b>
Preferred dividends paid	107	51	30
Net income available to common shareholders	<b>\$ 3,033</b>	<b>\$ 3,994</b>	<b>\$ 3,549</b>
<b>Average number of common shares outstanding (millions) (Note 20):</b>			
Basic	987	989	988
Diluted	993	997	1,001
<b>Earnings per common share (in dollars)<sup>(3)</sup> (Note 20):</b>			
Basic	\$ 3.07	\$ 4.04	\$ 3.59
Diluted	\$ 3.05	\$ 4.01	\$ 3.55

Dividends per common share (in dollars)	<b>\$ 1.92</b>	\$ 1.74	\$ 1.50
---	----------------	---------	---------

- 
- (1) Refer to Note 1 for impact of adopting new accounting policies in 2007 as a result of new accounting standards related to financial instruments.
  - (2) Refer to Note 1 for impact of adopting a new accounting policy in 2006 as a result of a new accounting standard related to stock-based compensation for employees eligible to retire before the vesting date.
  - (3) 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 Financial Statements

### Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 (\$ millions)	2008	2007	2006
<b>Preferred shares (Note 14)</b>			
Balance at beginning of year	\$ 1,635	\$ 600	\$ 600
Issued	1,225	1,035	—
Balance at end of year	2,860	1,635	600
<b>Common shares (Note 14)</b>			
Balance at beginning of year	3,566	3,425	3,316
Issued	266	184	135
Purchased for cancellation	(3)	(43)	(26)
Balance at end of year	3,829	3,566	3,425
<b>Retained earnings</b>			
Balance at beginning of year	17,460	15,843	14,126
Cumulative effect of adopting new accounting policies	—	(61) <sup>(1)</sup>	(25) <sup>(2)</sup>
	17,460	15,782	14,101
Net income	3,140	4,045	3,579
Dividends: Preferred	(107)	(51)	(30)
Common	(1,896)	(1,720)	(1,483)
Purchase of shares	(37)	(586)	(324)
Other	(11)	(10)	—
Balance at end of year	18,549	17,460	15,843
<b>Accumulated other comprehensive income (loss)<sup>(1)</sup></b>			
Balance at beginning of year	(3,857)	(2,321)	(1,961)
Cumulative effect of adopting new accounting policies	—	683	—
Other comprehensive income (loss) (Note 16)	261	(2,219)	(360)
Balance at end of year	(3,596)	(3,857)	(2,321)
Total shareholders' equity at end of year	\$21,642	\$18,804	\$17,547

### Consolidated Statement of Comprehensive Income

For the year ended October 31 (\$ millions)	2008	2007	2006
<b>Comprehensive income</b>			
Net income	\$ 3,140	\$ 4,045	\$ 3,579
Other comprehensive income (loss), net of income taxes (Note 16):			
Net change in unrealized foreign currency translation losses	2,368	(2,228)	(360)
Net change in unrealized gains (losses) on available-for-sale securities	(1,588)	(67)	—
Net change in gains (losses) on derivative instruments designated as cash flow hedges	(519)	76	—
Other comprehensive income (loss)	261	(2,219)	(360)
Comprehensive income	\$ 3,401	\$ 1,826	\$ 3,219

(1) Refer to Note 1 for impact of new accounting policies as a result of new accounting standards related to financial instruments.

(2) Represents the cumulative effect of adopting a new accounting policy as a result of a new accounting standard related to stock-based compensation for employees eligible to retire before the vesting date [refer to Note 1, Stock-based compensation].

*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)

	2008	2007	2006
<b>Cash flows from operating activities</b>			
Net income	\$ 3,140	\$ 4,045	\$ 3,579
Adjustments to determine net cash flows from (used in) operating activities:			
Depreciation and amortization	291	267	230
Provision for credit losses	630	270	216
Future income taxes	(367)	(106)	(178)
Net gain (loss) on securities, other than trading <sup>(1)</sup>	374	(488)	(371)
Net accrued interest receivable and payable	60	18	221
Trading securities	13,721	334	(13,042)
Derivative assets	(15,292)	(13,616)	222
Derivative liabilities	11,202	14,548	446
Other, net	6,353	(3,261)	2,713
	<b>20,112</b>	<b>2,011</b>	<b>(5,964)</b>
<b>Cash flows from financing activities</b>			
Deposits	28,106	41,746	44,014
Obligations related to securities sold under repurchase agreements	6,913	(3,858)	8,245
Obligations related to securities sold short	(5,020)	3,848	2,190
Subordinated debentures issued	3,144	—	—
Subordinated debentures redemptions/repayments	(691)	(500)	(300)
Capital instrument liabilities redemptions/repayments	—	(250)	—
Preferred shares issued	1,225	1,035	—
Common shares issued	234	112	118
Common shares redeemed/purchased for cancellation	(40)	(629)	(350)
Cash dividends paid	(2,003)	(1,771)	(1,513)
Other, net	(101)	3,391	684
	<b>31,767</b>	<b>43,124</b>	<b>53,088</b>
<b>Cash flows from investing activities</b>			
Interest-bearing deposits with banks	(5,052)	(7,087)	(1,664)
Securities purchased under resale agreements	3,793	1,897	(5,633)
Loans, excluding securitizations	(47,483)	(42,028)	(31,978)
Loan securitizations	5,121	3,756	2,514
Securities, other than trading <sup>(1)</sup>			
Purchases	(41,444)	(32,133)	(41,326)
Maturities	16,842	14,015	18,011
Sales	19,346	17,267	15,146
Land, buildings and equipment, net of disposals	(464)	(317)	(256)
Other, net <sup>(2)</sup>	(2,399)	(390)	(2,099)
	<b>(51,740)</b>	<b>(45,020)</b>	<b>(47,285)</b>
Effect of exchange rate changes on cash and cash equivalents	297	(257)	(60)
<b>Net change in cash and cash equivalents</b>	<b>436</b>	<b>(142)</b>	<b>(221)</b>
Cash and cash equivalents at beginning of year	2,138	2,280	2,501
<b>Cash and cash equivalents at end of year<sup>(3)</sup></b>	<b>\$ 2,574</b>	<b>\$ 2,138</b>	<b>\$ 2,280</b>
<b>Cash disbursements made for:</b>			
Interest	\$ 14,544	\$ 13,625	\$ 10,559
Income taxes	\$ 1,212	\$ 905	\$ 1,012

Certain comparative amounts have been reclassified to conform with current period presentation.

- (1) Prior to November 1, 2006, this related to securities classified as investment securities. Refer to Note 1 for further details.
- (2) Comprises investments in subsidiaries 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 nil (2007 — \$36; 2006 — \$1) and net of cash and cash equivalents at the date of acquisition of \$37 (2007 — \$6; 2006 — \$167).
- (3) Represents cash and non-interest-bearing deposits with banks.

*The accompanying notes are an integral part of these consolidated financial statements.*

## Notes to the 2008 Consolidated Financial Statements

### Table of Contents

Page	Note	
111	1.	Significant accounting policies
116	2.	Future accounting changes
116	3.	Securities
118	4.	Loans
119	5.	Impaired loans and allowance for credit losses
120	6.	Variable interest entities
121	7.	Land, buildings and equipment
121	8.	Goodwill and other intangible assets
121	9.	Other assets
122	10.	Deposits
122	11.	Other liabilities
123	12.	Subordinated debentures
123	13.	Capital instrument liabilities, trust securities and trust subordinated notes
125	14.	Capital stock
127	15.	Capital management
128	16.	Accumulated other comprehensive income (loss)
129	17.	Stock-based compensation
131	18.	Corporate income taxes
132	19.	Employee future benefits
134	20.	Earnings per common share
134	21.	Related party transactions
134	22.	Segmented results of operations
137	23.	Guarantees, commitments and contingent liabilities
139	24.	Financial instruments — risk management
148	25.	Financial instruments — fair value
149	26.	Items designated as trading

149	27.	Derivative instruments
153	28.	Acquisitions
154	29.	Reconciliation of Canadian and United States generally accepted accounting principles (GAAP)



## 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 Canadian GAAP. In addition, Note 29 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 and determination of the primary beneficiary of a variable interest entity (VIE). 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

#### *Reclassification of Financial Assets*

On October 24, 2008, the CICA issued amendments to the accounting standard on Financial Instruments — Recognition and Measurement. The amendments permit the reclassification of non-derivative financial assets out of the held-for-trading category under rare circumstances. For the period ended October 31, 2008, the Bank is permitted to retrospectively reclassify items from August 1, 2008. Any future reclassifications would need to be applied prospectively. In accordance with these amendments, the Bank reclassified specified assets out of 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. If these reclassifications of bond assets and preferred shares had not been made, the Bank would have recorded a pre-tax loss of \$26 million and \$10 million, respectively, during the fourth quarter relating to fair value movements on these assets subsequent to August 1, 2008. Due to the reclassifications, these amounts have been recorded in other comprehensive income for the period ended October 31, 2008. 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.

#### *Capital Disclosures*

The CICA has issued a new accounting standard that establishes requirements for Capital Disclosures. This was effective for the Bank commencing November 1, 2007 and requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital and whether an entity has complied with any capital requirements and consequences of non-compliance with such capital requirements.

#### *Financial Instruments Disclosures*

The CICA has issued two new accounting standards on Financial Instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards were effective for the Bank commencing November 1, 2007. The new disclosures provide additional information on the nature and extent of risks arising from financial instruments to which the Bank is exposed and how it manages those risks.

### Prior Year Changes in Accounting Policies

Commencing November 1, 2006, the Bank adopted three new accounting standards: (i) *Financial Instruments — Recognition and Measurement*, (ii) *Hedges* and (iii) *Comprehensive Income*. The new standards require all financial assets and financial liabilities to be carried at fair value in the Consolidated Balance Sheet, except the following, which are carried at amortized cost unless designated as held for trading upon initial recognition: loans and receivables,

securities designated as held-to-maturity and non-trading financial liabilities. The methods used by the Bank in determining the fair value of financial instruments were unchanged as a result of implementing these new accounting standards.

The main requirements of the standards and the related accounting policies subsequently adopted by the Bank are discussed in the following paragraphs.

Prior periods have not been restated as a result of implementing the new accounting standards, except that unrealized foreign currency translation gains/losses on net investments in self-sustaining operations were reclassified to accumulated other comprehensive income (loss).

As a result of these changes, the Bank recorded a net reduction of \$61 million (net of income tax benefit of \$31 million) to opening retained earnings in 2007. This transition impact arose primarily from recognizing in retained earnings the deferred gains and losses relating to certain previously discontinued hedges. The adoption of these new accounting policies did not have a material impact on the Bank's results of operations for fiscal 2007.

### **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 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; (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.

Investments in VIEs where the Bank has significant influence, but where the Bank is not the primary beneficiary, are accounted for using the equity method.

### **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

---

## Consolidated Financial Statements

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. Prior to fiscal 2007, unrealized foreign currency gains or losses relating to monetary investment securities were recorded in net 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

Commencing November 1, 2006, securities are categorized as trading, available-for-sale, held-to-maturity or equity accounted investments. At that date the Bank designated all non-trading debt and equity securities as available-for-sale. Available-for-sale securities are generally held for liquidity and longer term investment purposes. These securities are recorded at fair value with unrealized gains and losses recorded in other comprehensive income until realized, at which time they will be recorded in the Consolidated Statement of Income. Available-for-sale equity securities that do not have a quoted market price in an active market, are recorded at cost, as fair values are not reliably measurable.

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 debt or equity securities 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.

Trading securities are 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. Where trading securities are used to manage the volatility of stock-based compensation, gains and losses realized on disposal and adjustments to fair value are included in non-interest expense — salaries and employee benefits in the Consolidated Statement of Income.

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.

Prior to fiscal 2007, securities that were not classified as trading or equity accounted investments were classified as investment securities. Investment securities were carried at cost or amortized cost. Premiums, discounts and related transaction costs on debt securities held in the investment account were amortized to interest income — securities in the Consolidated Statement of Income over the life of the instrument. When there was a decline in value of debt or equity

securities that was other than temporary, the carrying value of the security was reduced to its net realizable value. The change in accounting policy related to other-than temporary impairment was not material. There was no change in the accounting for trading securities.

### **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.

### **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.

### **Loans**

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in other assets in the Consolidated Balance Sheet. Loans are accounted for at amortized cost, except those designated as trading which are carried at fair value. 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 when the syndication is completed.

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 and a general 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 provision.

The general 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.



---

## Consolidated Financial Statements

### 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.

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 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.

Intangible assets, other than goodwill, 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, commodity 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 activities are undertaken to meet the needs of the Bank's customers, as well as for the Bank's own account to generate trading income. Derivative instruments designated as "asset/liability management" (non-trading) are those used to manage the Bank's 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 that must be separately accounted for, are recorded at fair value in the Consolidated Balance Sheet [refer to Note 27]. The determination of the fair value of derivatives includes consideration, on a portfolio basis, of customer 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.

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 the hedge's inception and on an ongoing basis whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

There are three main types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges. Effective November 1, 2006, 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. The main financial instruments designated in fair value hedging relationships include debt securities, loans, deposit liabilities and subordinated debentures.

Effective November 1, 2006, 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.

Effective November 1, 2006, for net investment hedges, the change in fair value of the hedging instrument, to the extent effective, is recorded directly in other comprehensive income. These amounts are recognized in income when the corresponding cumulative translation adjustments from self sustaining foreign operations are recognized in income.

Commencing November 1, 2006, hedge ineffectiveness is measured and recorded in current period income 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.

For all periods presented, 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 value 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.

Prior to fiscal 2007, asset/liability management derivatives which met hedge accounting criteria were accounted for on an accrual basis. Income and expenses on derivative instruments designated and qualifying as hedges were recognized in the Consolidated Statement of Income in the same period as the related hedged item. The criteria specifying when a derivative instrument may be accounted for as a hedge did not change substantially. When a hedging relationship was discontinued, the associated derivative instrument was subsequently carried at fair value and any previously deferred income or expenses were carried forward for recognition in the Consolidated Statement of Income in the same period as the related hedged item. Hedge ineffectiveness was generally recognized in the Consolidated Statement of Income over the life of the hedging relationship. Inception gains and losses were recognized on all trading and non-trading derivatives that did not qualify for hedge accounting.

Embedded derivatives were not recognized separately at fair value other than certain derivatives embedded in equity-linked contracts.

### 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 10 to 22 years. For principal other benefit plans, these periods range from 9 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 10 to 22 years and from 9 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 17.

Employee stock options granted after November 1, 2002, have Tandem Stock Appreciation Rights (Tandem SARs), which 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 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.

The Bank's other 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.

Effective in fiscal 2006, for Stock Appreciation Rights (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 time-frame between the grant date and the date of retirement eligibility.

Stock options granted after November 1, 2002, to non-officer directors do not have Tandem SAR features. These are expensed using a fair-value-based method (Black-Scholes pricing model) and recorded in other non-interest expenses in the Consolidated Statement of Income with a corresponding credit to contributed surplus 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.

Prior to the third quarter of fiscal 2006, the Bank recognized the cost of stock-based compensation awards over the vesting period of the award. In the third quarter of fiscal 2006, the Bank early adopted the provisions of new accounting guidance requiring stock-based compensation to eligible-to-retire employees to be accounted for as described above, and recorded an adjustment of \$25 million (net of income taxes of \$13 million) to opening fiscal 2006 retained earnings for the cumulative effect on prior years arising from this change in accounting policy. The fiscal 2006 income statement effect of adopting this change in policy was an increase in net income of \$6 million (net of a provision for income taxes of \$3 million).

## **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

## 3

[illegible]

Canadian dollar	\$ 2,624	\$ 4,355	\$17,334	\$10,055	\$16,823	<b>\$51,191</b>	\$56,405
U.S. dollar	533	1,229	8,473	7,842	5,601	<b>23,678</b>	21,063
Mexican peso	955	453	1,675	918	111	<b>4,112</b>	5,447
Other currencies	1,099	1,115	2,408	3,550	882	<b>9,054</b>	5,920
Total securities	<u>\$ 5,211</u>	<u>\$ 7,152</u>	<u>\$29,890</u>	<u>\$22,365</u>	<u>\$23,417</u>	<u><b>\$88,035</b></u>	<u>\$88,835</u>

- 
- (1) Includes securities retained by the Bank in connection with its mortgage securitizations. The outstanding balance of these mortgage-backed securities is \$6,054 (2007 — \$4,375) [refer to Note 4 (b)].
- (2) Includes \$277 million of bond assets and \$81 million of preferred shares as at October 31, 2008 which were reclassified from trading securities to available-for-sale securities pursuant to recent amendments to Canadian standards. Refer to Note 1 for further details.
- (3) Although these securities have no stated term, most provide the Bank with various means to retract or dispose of these shares on earlier dates.
- (4) Equity accounted investments have no stated term, and as a result, have been classified in the “No specific maturity” column.

**(b) An analysis of unrealized gains and losses on available-for-sale securities is as follows:**

As at October 31 (\$ millions)	2008				2007			
	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	\$ 9,662	\$ 232	\$ 1	\$ 9,893	\$ 5,062	\$ 10	\$ 37	\$ 5,035
Canadian provincial and municipal debt	14	—	—	14	316	—	—	316
U.S. treasury and other U.S. agencies' debt	2,178	12	14	2,176	2,166	8	2	2,172
Other foreign governments' debt	6,983	226	124	7,085	5,281	322	70	5,533
Bonds of designated emerging markets	334	140	5	469	357	277	—	634
Other debt	17,398	69	1,492	15,975	11,464	67	59	11,472
Preferred shares	598	5	64	539	535	24	10	549
Common shares	2,884	134	346	2,672	2,273	475	33	2,715
Total available-for-sale securities	\$40,051	\$ 818	\$ 2,046	\$38,823	\$27,454	\$ 1,183	\$ 211	\$28,426

(1) Cost for debt securities is amortized cost.

The net unrealized gain(loss) on available-for-sale securities of (\$1,228) million (2007 — \$972 million) increases to a net unrealized gain/(loss) of (\$1,320) million (2007 — increases to \$977 million) after the net fair value of derivative instruments and other hedge amounts associated with these securities is taken into account. The net unrealized gain (loss) on available-for-sale securities is recorded in accumulated other comprehensive income.

**(c) An analysis of net gain (loss) on securities, other than trading<sup>(1)</sup> is as follows:**

For the year ended October 31 (\$ millions)	2008	2007	2006
Realized gains	\$ 666	\$ 708	\$ 476
Realized losses and impairment writedowns	1,040	220	105
Net gain (loss) on securities, other than trading	\$ (374)	\$ 488	\$ 371

(1) Commencing November 1, 2006, these securities relate to available-for-sale securities and equity accounted investments. Prior to November 1, 2006, this related to securities classified as investment securities and equity accounted investments. Refer to Note 1 for further details.

Net gains realized on available-for-sale equity securities which did not have a quoted market price were \$69 million for the year ended October 31, 2008 (2007 — \$293 million).

**(d) The following table presents securities with continuous unrealized losses for periods less than and greater than 12 months:**

(\$ millions)	Available-for-sale securities with continuous unrealized losses as at October 31, 2008								
	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	\$ 299	\$ 298	\$ 1	\$ —	\$ —	\$ —	\$ 299	\$ 298	\$ 1
Canadian provincial and municipal debt	12	12	—	—	—	—	12	12	—
U.S. treasury and									

other U.S. agencies' debt	848	835	13	8	7	1	856	842	14
Other foreign governments' debt	2,402	2,325	77	558	511	47	2,960	2,836	124
Bonds of designated emerging market	85	80	5	—	—	—	85	80	5
Other debt	13,860	12,610	1,250	1,537	1,295	242	15,397	13,905	1,492
Preferred shares	470	416	54	60	50	10	530	466	64
Common shares	1,007	713	294	320	268	52	1,327	981	346
<b>Total</b>	<b>\$18,983</b>	<b>\$17,289</b>	<b>\$ 1,694</b>	<b>\$2,483</b>	<b>\$2,131</b>	<b>\$ 352</b>	<b>\$21,466</b>	<b>\$19,420</b>	<b>\$ 2,046</b>

As at October 31, 2008, the cost of 1,208 available-for-sale securities exceeded their fair value by \$2,046 million. This unrealized loss is recorded in Accumulated Other Comprehensive Income as part of unrealized gains (losses) on available-for-sale securities. Of the 1,208 securities, 227 have been in an unrealized loss position continuously for more than a year, amounting to an unrealized loss of \$352 million. The unrealized losses on the debt instruments arose primarily from an increase in credit spreads. Based on factors including underlying credit of the issuers and the over-collateralization provided on certain of these debt securities, the Bank expects that future interest and principal payments will continue to be received on a timely basis. The Bank holds a diversified portfolio of available-for-sale equities. For equity investments, the significant portion of unrealized losses arose during the latter part of fiscal 2008 reflecting the current market environment, timing of the market prices or investment-specific business environment factors. 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 write-down 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.

## Consolidated Financial Statements

### 4 Loans

#### (a) Loans outstanding

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)	2008	2007
<b>Canada:</b>		
Residential mortgages	\$102,326	\$ 94,085
Personal and credit cards	41,386	35,436
Business and government	34,749	29,100
	<u>178,461</u>	<u>158,621</u>
<b>United States:</b>		
Business, government and other	<u>25,842</u>	<u>17,407</u>
<b>Mexico:</b>		
Residential mortgages	3,092	2,579
Personal and credit cards	2,132	1,836
Business and government	6,262	4,566
	<u>11,486</u>	<u>8,981</u>
<b>Other International:</b>		
Residential mortgages	9,666	5,490
Personal and credit cards	7,201	4,462
Business and government	58,650	34,427
	<u>75,517</u>	<u>44,379</u>
	<u>291,306</u>	<u>229,388</u>
Less: allowance for credit losses	2,626	2,241
Total <sup>(2)</sup>	<u>\$288,680</u>	<u>\$227,147</u>

(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 \$71,532 (2007 — \$42,032), loans denominated in Mexican pesos amount to \$8,821 (2007 — \$7,007) and loans denominated in other foreign currencies amount to \$35,669 (2007 — \$22,591).

#### (b) 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 — other 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 20% (2007 — 20.0%; 2006 — 16.0%), an excess spread of 1.4% (2007 — 0.8%; 2006 — 0.9%), and a discount rate of 3.9% (2007 — 4.5%; 2006 — 4.3%). 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)	2008	2007	2006
Net cash proceeds <sup>(1)</sup>	\$ 5,121	\$ 3,756	\$ 2,514
Retained interest	165	98	67
Retained servicing liability	(30)	(27)	(18)
	<u>5,256</u>	<u>3,827</u>	<u>2,563</u>
Residential mortgages securitized	<u>5,174</u>	<u>3,827</u>	<u>2,551</u>
Net gain on sale	<u>\$ 82</u>	<u>\$ —</u>	<u>\$ 12</u>

(1) Excludes insured mortgages which were securitized and retained by the Bank during the year of \$3,885 (2007 —

\$2,983; 2006 — \$1,206). These assets are classified as available-for-sale securities (investment securities in 2006) and have an outstanding balance of \$6,054 (2007 — \$4,375; 2006 — \$2,116) [refer to Note 3].

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)	2008	2007
Fair value of the retained interest (\$)	302	229
Weighted average life (in years)	4	4
Prepayment rate (%)	17.3	16.3
Impact on fair value of a 10% adverse change (\$)	(7)	(5)
Impact on fair value of a 20% adverse change (\$)	(14)	(9)
Residual cash flow annual discount rate (%)	2.2 - 4.0	4.5-5.7
Impact on fair value of a 10% adverse change (\$)	(2)	(2)
Impact on fair value of a 20% adverse change (\$)	(3)	(4)
Excess spread (%)	1.2	0.9
Impact on fair value of a 10% adverse change (\$)	(30)	(22)
Impact on fair value of a 20% adverse change (\$)	(60)	(43)



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 interests 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:

	2008 <sup>(2)(3)</sup>			2007 <sup>(2)(3)</sup>			2006 <sup>(2)</sup>		
	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
(\$ millions)									
Residential mortgages	\$ 12,787	\$ 14	\$ —	\$ 11,631	\$ 15	\$ —	\$ 11,913	\$ 7	\$ —
Personal loans	235	6	4	414	14	57	170	1	1
Total	\$ 13,022	\$ 20	\$ 4	\$ 12,045	\$ 29	\$ 57	\$ 12,083	\$ 8	\$ 1

- (1) Excludes insured mortgages which were securitized and retained by the Bank [refer to Note 3].
- (2) The mortgage amounts include balances of mortgages securitized by Maple Trust Company and the Canadian branch of Maple Financial Group Inc., prior to the Bank acquiring the Canadian mortgage operations of Maple Financial Group Inc., including Maple Trust Company, in 2006.
- (3) The 2008 and 2007 personal and credit card amounts include balances of receivables securitized by Travelers Leasing Corporation prior to the Bank acquiring the operations of Travelers Leasing Corporation in 2007.

## 5 Impaired loans and allowance for credit losses

### (a) Impaired loans

	2008			2007
As at October 31 (\$ millions)	Gross <sup>(1)</sup>	Specific allowance <sup>(2)</sup>	Net	Net
<b>By loan type:</b>				
Residential mortgages	\$ 664	\$ 232	\$ 432	\$ 203
Personal and credit cards	692	608	84	51
Business and government	1,138	463	675	347
Total	\$2,494 <sup>(3)(4)</sup>	\$ 1,303	\$1,191	\$ 601
<b>By geography:</b>				
Canada			\$ 354	\$ 231
United States			80	4
Other International			757	366
Total			\$1,191	\$ 601

- (1) Gross impaired loans denominated in U.S. dollars amounted to \$658 (2007 — \$433) and those denominated in other foreign currencies amounted to \$1,084 (2007 — \$505).
- (2) The specific allowance for impaired loans evaluated on an individual basis totalled \$462 (2007 — \$383).
- (3) Individual impaired loans without an allowance for credit losses totalled \$365 (2007 — \$179).
- (4) Average balance of gross impaired loans totalled \$2,011 (2007 — \$1,757).

### (b) Allowance for credit losses

As at October 31 (\$ millions)	2008	2007	2006
Balance at beginning of year	\$ 2,252	\$ 2,618	\$ 2,475
Write-offs <sup>(1)</sup>	(880)	(698)	(543)
Recoveries	231	186	181
Provision for (reversal of) credit losses	630	270	216
Other, including foreign currency adjustment <sup>(2)</sup>	401	(124)	289

Balance at end of year<sup>(3)(4)</sup>

**\$ 2,634**

\$ 2,252

\$ 2,618

- 
- (1) Write-offs of loans restructured during the year were nil (2007 — nil; 2006 — nil).
  - (2) Includes \$232 in specific allowances and \$25 in general allowances related to acquisitions in 2008, \$38 in specific allowances and \$16 in general allowances from acquisitions in 2007, and \$323 in specific allowances and \$37 in general allowances from acquisitions in 2006.
  - (3) As at October 31, 2008, \$8 (2007 — \$11; 2006 — \$11) has been recorded in other liabilities.
  - (4) Comprised of \$1,303 (2007 — \$954; 2006 — \$1,311) in specific allowances and \$1,323 (2007 — \$1,298; 2006 — \$1,307) in general allowances.

## Consolidated Financial Statements

### 6 Variable interest entities

The following table provides information about variable interest entities (VIEs) that the Bank consolidated and 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.

#### Consolidated VIEs:

As at October 31 (\$ millions)	2008	2007
	Total assets	Total assets
Funding vehicles	\$ 5,207	\$ 4,829
Other	631	1,285

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.

A Bank-sponsored commercial paper conduit was consolidated by the Bank at the end of October 2007 (included under "Other") as the Bank was deemed to be the primary beneficiary due to its interest in a substantial portion of the conduit's commercial paper. This conduit was subsequently wound up.

The assets supporting the obligations of these consolidated VIEs as at October 31, 2008 are as follows: cash and non-interest bearing deposits with banks of \$11 million (2007 — \$727 million); Canadian residential mortgage loans of \$5,140 million (2007 — \$4,757 million); trading securities of \$617 million (2007 — \$542 million); and other assets of \$70 million (2007 — \$88 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.

#### Other VIEs in which the Bank has a significant variable interest:

As at October 31 (\$ millions)	2008		2007	
	Total assets	Maximum exposure to loss	Total assets	Maximum exposure to loss
Multi-seller conduits that the Bank administers	\$12,283	\$ 12,283	\$14,525	\$ 14,525
Structured finance entities	6,705	4,269	3,223	1,949
Collateralized debt obligation entities	399	847	854	292
Other	941	140	839	156

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 \$5.3 billion (2007 — \$2.5 billion), primarily its ownership interest in the VIEs, on its Consolidated Balance Sheet as at October 31, 2008.

#### 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. Pursuant to the terms of the LAPA, the Bank as the liquidity provider is obligated to purchase assets transferred by the conduit at the conduit's original cost. 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 23]. The Bank provides additional liquidity facilities to these multi-seller conduits to a maximum amount of \$5 billion (2007 — \$5.6 billion) based on future asset purchases by these conduits.

On April 30, 2007, the Bank's U.S. Multi-seller Commercial Paper Conduit issued a subordinated note to an unrelated party that absorbs the majority of the expected losses. It was determined that the Bank was no longer the primary beneficiary and as a result, the VIE was no longer recorded in the Bank's Consolidated Balance Sheet effective April 30, 2007. On the date of deconsolidation, this resulted in a decrease to both available-for-sale securities and other liabilities of \$7 billion, and a net increase in guarantees and other indirect commitments of \$8 billion.

During 2008, the Bank's U.S. Multi-seller Commercial Paper Conduit (the "U.S. Conduit"), transferred certain CDO and CLO assets to the Bank pursuant to the terms of its liquidity asset purchase agreements. Pre-tax charges of \$298 million were recorded during the year to the Consolidated Income Statement representing the difference between the amounts paid (original cost of the assets) and the fair value of the assets on the dates transferred to the Bank. The acquisition of the assets by the Bank were pursuant to the existing LAPA arrangements and were not executed to protect the subordinated note holder from potential losses on any of the U.S. Conduit's holdings, including the assets acquired.

During the year, the U.S. Conduit increased the amount of the subordinated note issued to an unrelated party as a consequence of these transfers of assets to the Bank. This subordinated note continues to absorb the majority of the expected losses of the remaining assets of the Conduit. Accordingly, the Bank is not the primary beneficiary and therefore does not consolidate the U.S. Conduit as at October 31, 2008.

### Structured finance entities

This includes special purpose entities used to assist corporate clients in accessing cost-efficient financing through their securitization structures.

### 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

As at October 31 (\$ millions)	Cost	Accumulated depreciation & amortization	2008 Net book value	2007 Net book value
Land	\$ 390	\$ —	\$ 390	\$ 334
Buildings	1,812	708	1,104	1,019
Equipment and computer software	3,263	2,472	791	638
Leasehold improvements	1,017	614	403	280
<b>Total</b>	<b>\$6,482</b>	<b>\$ 3,794</b>	<b>\$2,688</b>	<b>\$2,271</b>

Depreciation and amortization in respect of the above buildings, equipment and computer software, and leasehold improvements for the year amounted to \$242 million (2007 — \$221 million; 2006 — \$192 million).

## 8 Goodwill and other intangible assets

### Goodwill

The changes in the carrying amount of goodwill by main operating segment are as follows:

As at October 31 (\$ millions)	Domestic Banking	International Banking	Scotia Capital	2008	2007	2006
Balance at beginning of year	\$ 351	\$ 692	\$ 91	\$1,134	\$ 873	\$ 498
Acquisitions	7	892	26	925	350	390
Effects of foreign exchange and other	22	165	27	214	(89)	(15)
<b>Balance at end of year</b>	<b>\$ 380</b>	<b>\$ 1,749</b>	<b>\$ 144</b>	<b>\$2,273</b>	<b>\$1,134</b>	<b>\$ 873</b>

### Intangible assets

As at October 31 (\$ millions)	Gross carrying amount	Accumulated amortization	2008 Net	2007 Net	2006 Net
Intangible assets	\$ 602	\$ 320	\$ 282	\$ 273	\$ 294

Intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense for the year ended October 31, 2008, was \$49 million (2007 — \$46 million; 2006 — \$38 million).

## 9 Other assets

As at October 31 (\$ millions)	2008	2007
--------------------------------	------	------

Accrued interest	<b>\$ 2,192</b>	<b>\$1,800</b>
Accounts receivable	<b>2,576</b>	<b>858</b>
Future income tax assets (Note 18)	<b>2,800</b>	<b>1,340</b>
Other	<b>4,551</b>	<b>2,617</b>
<b>Total</b>	<b><u>\$12,119</u></b>	<b><u>\$6,615</u></b>

## Consolidated Financial Statements

### 10 Deposits

As at October 31 (\$ millions)	Interest-bearing	Payable on demand Non-interest-bearing	Payable after notice	Payable on a fixed date	2008	2007
Personal	\$ 3,171	\$ 2,776	\$ 37,685	\$ 75,287	<b>\$118,919</b>	\$100,823
Business and government <sup>(1)</sup>	20,860	9,828	13,803	156,075	<b>200,566</b>	161,229
Banks	254	268	824	25,749	<b>27,095</b>	26,406
Total	\$ 24,285	\$ 12,872	\$ 52,312	\$ 257,111	<b>\$346,580</b>	\$288,458
Recorded in:						
Canada					<b>229,284</b>	198,158
United States					<b>40,368</b>	27,513
Mexico					<b>10,268</b>	8,288
Other International					<b>66,660</b>	54,499
Total <sup>(2)</sup>					<b>\$346,580</b>	\$288,458

(1) Includes deposit notes issued by the Bank to Scotiabank Capital Trust of \$2,250 (2007 — \$2,250) and Scotiabank Subordinated Notes Trust of \$1,000 (2007 — \$1,000) [refer to Note 13].

(2) Deposits denominated in U.S. dollars amount to \$100,283 (2007 — \$74,887), deposits denominated in Mexican pesos amount to \$9,632 (2007 — \$7,736) and deposits denominated in other foreign currencies amount to \$50,850 (2007 — \$37,272).

### 11 Other liabilities

As at October 31 (\$ millions)	2008	2007
Accrued interest	<b>\$ 2,741</b>	\$ 2,386
Accounts payable and accrued expenses	<b>4,714</b>	4,283
Deferred income	<b>581</b>	416
Future income tax liabilities (Note 18)	<b>264</b>	226
Gold and silver certificates	<b>5,619</b>	5,986
Margin and collateral accounts	<b>8,434</b>	2,352
Other liabilities of subsidiaries and VIEs <sup>(1)</sup>	<b>4,931</b>	2,201
Other	<b>3,779</b>	3,288
Total	<b>\$31,063</b>	\$21,138

(1) Excludes deposits and capital instrument liabilities.

## 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)			2008		2007
Maturity date	Interest rate (%)	Terms <sup>(1)</sup>	Par value	Carrying value <sup>(2)</sup>	Carrying value <sup>(2)</sup>
September 2008	6.25	US \$250 million. Matured on September 15, 2008	\$ —	\$ —	\$ 243
July 2013	5.65	Redeemed on July 22, 2008	—	—	428
September 2013	8.30	Redeemable at any time	250	252	252
May 2014	5.75	Redeemable at any time. After May 12, 2009, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1%	325	329	335
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	1,726	—
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	—
June 2025	8.90	Redeemable at any time	250	272	250
November 2037	3.015	JPY ¥10 billion. Redeemable on November 20, 2017	122	133	—
April 2038	3.37	JPY ¥10 billion. Redeemable on April 9, 2018	122	133	—
August 2085	Floating	US \$214 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	258	257	202
			<b>\$ 4,277</b>	<b>\$ 4,352</b>	<b>\$ 1,710</b>

The contractual maturities of the debentures are summarized in Note 24(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.

## 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 and Scotiabank Subordinated Notes 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 and Scotiabank Trust Subordinated Notes issued by the Trusts are not reported on the Consolidated Balance Sheet. The deposit notes issued by the Bank to Scotiabank Capital Trust and Scotiabank Subordinated Notes 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)	2008	2007
<b>Capital instrument liabilities</b>		
Scotiabank Trust Securities — Series 2000-1 issued by BNS Capital Trust <sup>(a)(e)(f)</sup>	\$ 500	\$ 500
<b>Scotiabank Trust Securities not consolidated by the Bank</b>		
Scotiabank Trust Securities — Series 2002-1 issued by Scotiabank Capital Trust <sup>(b)(e)(f)</sup>	\$ 750	\$ 750
Scotiabank Trust Securities — Series 2003-1 issued by Scotiabank Capital Trust <sup>(c)(e)(f)</sup>	750	750
Scotiabank Trust Securities — Series 2006-1 issued by Scotiabank Capital Trust <sup>(d)(e)(f)</sup>	750	750
<b>Scotiabank Trust Subordinated Notes not consolidated by the Bank</b>		
Scotiabank Trust Subordinated Notes — Series A issued by Scotiabank Subordinated Notes Trust <sup>(g)</sup>	\$ 1,000	\$ 1,000

(a) On April 4, 2000, BNS Capital Trust, a wholly-owned closed-end trust, issued 500,000 Scotiabank Trust Securities — 2000-1 ("Scotia BaTS"). Each Scotia BaTS is entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount per Scotia BaTS of \$36.55. With regulatory approval, these securities may be redeemed in whole by the payment of cash at the option of BNS Capital Trust. On or after June 30, 2011, the Scotia BaTS may be exchanged, at the option of the holder and subject to certain prior rights of the Bank, into Non-cumulative Preferred Shares Series Y of the Bank. The Non-cumulative Preferred Shares Series Y would

---

## Consolidated Financial Statements

pay a dividend rate equivalent to the cash distribution rate of the Scotia BaTS [refer to Note 14 — Restrictions on dividend payments]. Under the circumstances outlined in (e) below the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series Y of the Bank. In certain circumstances on or after June 30, 2011, the Non-cumulative Preferred Shares Series Y 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.

- (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 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 (e) 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 Note 14 — 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, the Scotia BaTS may be redeemed in whole by the payment of cash prior to June 30, 2008, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2008, 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 (e) 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 Note 14 — 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 — distributions payable semi-annually in an amount of \$28.25 per security. With regulatory approval, these securities may be redeemed in whole 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 Note 14 — Restrictions on dividend payments]. Under the circumstances outlined in (e) 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) The Scotia BaTS 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.

- (f) No cash distributions will be payable on the Scotia BaTS 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 Note 14 — Restrictions on dividend payments].
- (g) On October 31, 2007, the Bank issued 1,000,000 Scotiabank Trust Subordinated Notes ("Scotia TSNs — Series A"), through a new 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. The first such payment was made on May 1, 2008, in an amount of \$26.393 per \$1,000 principal amount. 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 TSNs will not be deductible by Scotiabank Subordinated Notes Trust for tax purposes.

## 14 Capital stock

Authorized:

An unlimited number of preferred and common shares without nominal or par value.

Issued and fully paid:

As at October 31 (\$ millions)	2008		2007		2006	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
<b>Preferred shares:</b>						
Series 12 <sup>(a)</sup>	12,000,000	\$ 300	12,000,000	\$ 300	12,000,000	\$ 300
Series 13 <sup>(b)</sup>	12,000,000	300	12,000,000	300	12,000,000	300
Series 14 <sup>(c)</sup>	13,800,000	345	13,800,000	345	—	—
Series 15 <sup>(d)</sup>	13,800,000	345	13,800,000	345	—	—
Series 16 <sup>(e)</sup>	13,800,000	345	13,800,000	345	—	—
Series 17 <sup>(f)</sup>	9,200,000	230	—	—	—	—
Series 18 <sup>(g)</sup>	13,800,000	345	—	—	—	—
Series 20 <sup>(h)</sup>	14,000,000	350	—	—	—	—
Series 22 <sup>(i)</sup>	12,000,000	300	—	—	—	—
<b>Total preferred shares</b>	<b>114,400,000</b>	<b>\$2,860</b>	<b>65,400,000</b>	<b>\$1,635</b>	<b>24,000,000</b>	<b>\$ 600</b>
<b>Common shares:</b>						
Outstanding at beginning of year	983,767,155	\$3,566	989,512,188	\$3,425	990,182,126	\$3,316
Issued under Shareholder Dividend and Share Purchase Plan <sup>(j)</sup>	2,576,133	108	115,228	6	142,269	7
Issued under Stock Option Plans (Note 17)	6,404,516	155	5,485,060	142	6,801,687	127
Issued for acquisition of a subsidiary	50,827	3	691,679	36	33,906	1
Purchased for cancellation <sup>(k)</sup>	(875,000)	(3)	(12,037,000)	(43)	(7,647,800)	(26)
Outstanding at end of year	991,923,631	\$3,829	983,767,155	\$3,566	989,512,188	\$3,425
<b>Total capital stock</b>		<b>\$6,689</b>		<b>\$5,201</b>		<b>\$4,025</b>

- (a) Series 12 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.328125. With regulatory approval, the 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.
- (b) Series 13 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.30. With regulatory approval, the shares may be redeemed by the Bank on or after April 28, 2010, 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 28, 2014, following which no redemption premium is payable.
- (c) Series 14 Non-cumulative Preferred Shares, issued on January 24, 2007, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.28125. The initial dividend, paid April 26, 2007, was

\$0.28356 per share. With regulatory approval, the shares may be redeemed by the Bank on or after April 26, 2012, 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 27, 2016, following which no redemption premium is payable.

- (d) Series 15 Non-cumulative Preferred Shares, issued on April 5 and April 17, 2007, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.28125. The initial dividend, paid July 27, 2007, was \$0.34829 per share. With regulatory approval, the shares may be redeemed by the Bank on or after July 27, 2012, 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 27, 2016, following which no redemption premium is payable.
- (e) Series 16 Non-cumulative Preferred Shares, issued on October 12, 2007, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.328125. The initial dividend, paid January 29, 2008, was \$0.39195 per share. With regulatory approval, the 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 27, 2017, following which no redemption premium is payable.
- (f) Series 17 Non-cumulative Preferred Shares, issued on January 31, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of \$0.35 per share. The initial dividend, paid April 28, 2008, was \$0.33753 per share. With regulatory approval, the shares may be redeemed by the Bank on or after April 26, 2013, at \$26.00 per share, together with declared and

---

## Consolidated Financial Statements

unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 26, 2017, following which no redemption premium is payable.

- (g) Series 18 Non-Cumulative 5-Year Rate Reset Preferred Shares, issued on March 25, 2008, and March 27, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.3125 for the initial five-year fixed rate period ending on April 25, 2013. The initial dividend, paid July 29, 2008, was \$0.4315 per share. 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 5-year Government of Canada yield and 2.05%, multiplied by \$25.00. Holders of Series 18 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. Series 19 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared, in an amount per share equal to the sum of the T-bill rate and 2.05% multiplied by \$25.00. If the Bank determines that, after giving effect to any election notices received, there would be less than 1,000,000 Series 18 preferred shares issued and outstanding on the applicable Series 18 conversion date, all of the issued and outstanding Series 18 preferred shares will be automatically converted on such Series 18 conversion date into an equal number of Series 19 preferred shares. 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 5 years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends. On all other dates beginning April 26, 2013, Series 19 preferred shares are redeemable at \$25.00 per share plus a redemption premium of \$0.50 per share.
- (h) Series 20 Non-cumulative 5-Year Rate Reset Preferred Shares, issued on June 10, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.3125 for the initial five-year fixed rate period ending on October 25, 2013. The initial dividend, paid July 29, 2008, was \$0.1678 per share. 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 5-year Government of Canada yield and 1.70%, multiplied by \$25.00. Holders of Series 20 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. Series 21 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared in an amount per share equal to the sum of the T-bill rate and 1.70% multiplied by \$25.00. If the Bank determines that, after giving effect to any election notices received, there would be less than 1,000,000 Series 20 preferred shares issued and outstanding on the applicable Series 20 conversion date, all of the issued and outstanding Series 20 preferred shares will be automatically converted on such Series 20 conversion date into an equal number of Series 21 preferred shares. 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 5 years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends. On all other dates beginning October 26, 2013, Series 21 preferred shares are redeemable at \$25.00 per share plus a redemption premium of \$0.50 per share.
- (i) Series 22 Non-cumulative 5-Year Rate Reset Preferred Shares, issued on September 9, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.3125 for the initial five-year fixed rate period ending on January 25, 2014. The initial dividend, if and when declared, will be payable January 28, 2009 in an amount of \$0.4829 per share. 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 5-year Government of Canada yield and 1.88%, multiplied by \$25.00. Holders of Series 22 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. Series 23 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared in an amount per share equal to the sum of the T-bill rate and 1.88% multiplied by \$25.00. If the Bank determines that, after giving effect to any Election Notices received, there would be less than 1,000,000 Series 22 preferred shares issued and outstanding on the applicable Series 22 Conversion Date, all of the issued and outstanding Series 22 preferred shares will be automatically converted on such Series 22 Conversion Date into an equal number of Series 23 preferred shares. 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 5 years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends. On all other dates beginning January 26, 2014, Series 23 preferred shares are redeemable at \$25.00 per share plus a redemption premium of \$0.50 per share.
- (j) As at October 31, 2008, 19,300,859 common shares have been reserved for future issue under the terms of the

## Shareholder Dividend and Share Purchase Plan.

- (k) In May 2008, the Bank initiated a new normal course issuer bid to purchase up to 20 million of the Bank's common shares. This represents approximately 2 per cent of the Bank's outstanding common shares. The bid will terminate on the earlier of January 11, 2009, or the date the Bank completes its purchases. During the year ended October 31, 2008, 875,000 shares (2007 — 12 million; 2006 — 7.6 million shares) were purchased at an average price of \$45.61 (2007 — \$52.21; 2006 — \$45.71).

### 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 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.

Effective November 1, 2007, regulatory capital ratios are determined in accordance with the revised capital framework, based on the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, commonly known as Basel II. Changes to the computation of regulatory capital from the previous framework (Basel I) are primarily the amount and categorization of prescribed inclusions and deductions from capital. This includes the calculation of the eligible allowance inclusion and the deduction for specified corporations (such as insurance entities and associated corporations), which is now split between two levels of capital. In addition, the computation of risk-weighted assets was revised to more closely align risk weight parameters with the individual risk profile of banks by introducing substantive changes to prescribed risk weights for credit risk exposures, including the use of internally derived credit risk parameters, and introducing an explicit new risk weight for operational risk. Capital requirements for market risk were generally unchanged.

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 OSFI has approved its use, they may proceed to apply the AIRB approach in computing capital requirements. However, in order to limit sudden declines in the capital levels for the industry in aggregate, capital floors were introduced for the first two years after full implementation of AIRB. A capital floor of 90% of the Basel I calculation applies in the first year of full approval and 80% in the second year, subject to approval. In the second quarter of 2008, the Bank received regulatory approval to move to the 90% floor.

The Bank received approval, with conditions, from OSFI to use AIRB for material Canadian, U.S. and European portfolios effective November 1, 2007. The Bank is assessing the remaining credit portfolios for application of AIRB in the future. The Bank uses the standardized approach for these portfolios. As well, the Bank is using 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)	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>
<b>Shareholders' equity per Consolidated Balance Sheet</b>	<b>\$21,642</b>	<b>\$18,804</b>
Capital Instrument liabilities — trust securities	2,750	2,750
Non-controlling Interest in subsidiaries	502	497
Goodwill deduction	(2,273)	(1,134)
Components of accumulated other comprehensive income excluded from Tier 1 capital	1,415	(692)
Other capital deductions <sup>(2)</sup>	(773)	—
<b>Tier 1 capital</b>	<b>\$23,263</b>	<b>\$20,225</b>
Qualifying subordinated debentures, net of amortization	4,227	1,452
Capital Instrument Liabilities — trust subordinated notes	1,000	1,000
Other net capital items <sup>(3)</sup>	(643)	304
<b>Tier 2 capital</b>	<b>4,584</b>	<b>2,756</b>



- 
- (1) Effective November 1, 2007, regulatory capital is determined in accordance with Basel II. The comparative amounts as at October 31, 2007, were determined in accordance with Basel I rules.
  - (2) Comprised primarily of net after-tax unrealized loss on available-for-sale equity securities, net after-tax gains on sale of securitized assets, 50% of investments in certain specified corporations acquired after January 1, 2007 and other items. Prior to November 1, 2007, 100% of investments in certain specified corporations were deducted from Tier 2 capital; commencing November 1, 2007, those acquired after January 1, 2007, are now split 50:50 between Tier 1 and Tier 2.
  - (3) Comprised mainly of eligible allowance for credit losses and net after-tax unrealized gain on available-for-sale equity securities less prescribed deductions including investments in specified corporations.

The two primary regulatory capital ratios used to assess capital adequacy are Tier 1 and Total capital ratios, which are determined by dividing those capital components by risk-weighted assets. Risk-weighted assets 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 exceeded these minimum ratio thresholds as at October 31, 2008 with a Tier I capital ratio of 9.3% and total capital ratio of 11.1 %. OSFI has also prescribed an asset-to-capital leverage multiple; the Bank was in compliance with this threshold as at October 31, 2008.

## Consolidated Financial Statements

### 16 Accumulated other comprehensive income (loss)

The components of accumulated other comprehensive income (loss) as at October 31, 2008 and 2007, 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						
	Opening balance	Net change	Ending balance	Opening balance	Transition amount	Net change	Ending balance
(\$ millions)	October 31 2007		October 31 2008	October 31 2006			October 31 2007
Unrealized foreign currency translation gains (losses), net of hedging activities	\$ (4,549)	\$ 2,368	\$ (2,181) <sup>(1)</sup>	\$ (2,321)	\$ —	\$(2,228)	\$ (4,549) <sup>(1)</sup>
Unrealized gains (losses) on available- for-sale securities, net of hedging activities	639	(1,588)	(949) <sup>(2)</sup>	—	706	(67)	639 <sup>(2)</sup>
Gains (losses) on derivative instruments designated as cash flow hedges	53	(519)	(466) <sup>(3)</sup>	—	(23)	76	53 <sup>(3)</sup>
Accumulated other comprehensive income (loss)	\$ (3,857)	\$ 261	\$ (3,596)	\$ (2,321)	\$ 683	\$(2,219)	\$ (3,857)

(1) Net of income tax expense of \$318 (2007 — expense of \$427). As at October 31, 2008, non-derivative instruments designated as net investment hedges amounted to \$7,630 (2007 — \$6,458).

(2) Net of income tax benefit of \$371 (2007 — expense of \$338).

(3) Net of income tax benefit of \$218 (2007 — expense of \$25). 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 \$204 (2007 — net after tax gain of \$34). As at October 31, 2008, the maximum length of cash flow hedges outstanding was less than 10 years (2007 — 7 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)	2008	2007	2006
<b>Net change in unrealized foreign currency translation losses</b>			
Net unrealized foreign currency translation gains (losses) <sup>(1)</sup>	\$ 4,206	\$(2,916)	\$ (564)
Net gains (losses) on hedges of net investments in self-sustaining foreign operations <sup>(2)</sup>	(1,838)	688	204
	<b>2,368</b>	<b>(2,228)</b>	<b>(360)</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>	(1,447)	46	—
Reclassification of net gains to net income <sup>(4)</sup>	(141)	(113)	—
	<b>(1,588)</b>	<b>(67)</b>	<b>—</b>

#### Net change in gains (losses) on derivative instruments designated as cash flow hedges

Net gains (losses) on derivative instruments designated as cash flow hedges <sup>(5)</sup>	179	(770)	—
Reclassification of net (gains) losses to net income <sup>(6)</sup>	(698)	846	—
	(519)	76	—
Other comprehensive income (loss)	\$ 261	\$(2,219)	\$ (360)

- (1) Net of income tax expense of nil.
- (2) Net of income tax benefit of \$109 (2007 — expense of \$427; 2006 — nil).
- (3) Net of income tax benefit of \$657 (2007 — expense of \$20).
- (4) Net of income tax expense of \$52 (2007 — expense of \$64).
- (5) Net of income tax expense of \$79 (2007 — benefit of \$387).
- (6) Net of income tax expense of \$322 (2007 — benefit of \$425).

## 17 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 after November 1, 2002, have Tandem Stock Appreciation Rights (Tandem SARs), which 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. 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 retroactive attachment of the Tandem SARs.

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. Outstanding options expire on dates ranging from March 5, 2009 to March 7, 2018. As approved by the shareholders, a total of 114 million common shares have been reserved for issuance under this plan of which 72.7 million common shares have been issued as a result of the exercise of options and 23.0 million common shares are committed under outstanding options, leaving 18.3 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. Currently, 144,000 (2007 — 164,000; 2006 — 174,000) options are outstanding at a weighted average exercise price of \$23.04 (2007 — \$23.09; 2006 — \$23.17). In fiscal 2008, 20,000 of these options (2007 — 10,000; 2006 — 50,000) were exercised at a weighted average exercise price of \$23.48 (2007 — \$24.51; 2006 — \$23.25). These options expire between March 9, 2011 and December 6, 2012. Commencing in fiscal 2004, the Bank no longer grants stock options to these directors.

Details of the Bank's Employee Stock Option Plan are as follows:

	2008		2007		2006	
	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	27,721	\$ 26.81	31,839	\$ 23.87	37,358	\$ 21.35
Granted	2,217	52.56	2,094	52.01	2,052	46.04
Exercised	(6,384)	19.12	(5,475)	19.29	(6,751)	16.32
Forfeited/cancelled	(231)	37.24	(207)	28.54	(342)	27.33
Exercise of Tandem SARs	(344)	27.45	(530)	26.80	(478)	25.90
Outstanding at end of year <sup>(1)</sup>	22,979	\$ 31.32	27,721	\$ 26.81	31,839	\$ 23.87
Exercisable at end of year	17,855	\$ 25.98	22,629	\$ 22.62	26,170	\$ 20.98
Available for grant	18,366		20,008		21,365	

As at October 31, 2008	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						
\$14.18 to \$21.03	6,686	1.66	\$ 18.41	6,686	\$ 18.41	
\$24.40 to \$27.44	6,398	3.50	\$ 24.58	6,398	\$ 24.58	
\$31.45 to \$46.02	5,709	5.87	\$ 38.60	4,271	\$ 36.88	
\$47.39 to \$54.00	4,186	8.55	\$ 52.27	500	\$ 51.87	
	22,979	4.47	\$ 31.32	17,855	\$ 25.98	

---

(1) Included are 16,293,077 (2007 — 16,024,561; 2006 — 15,892,372) options with Tandem SAR features.

---

## Consolidated Financial Statements

### (b) Employee share ownership plans

Qualifying employees can generally contribute up to the lesser of a specified percentage of salary and a maximum dollar amount towards the purchase of common shares of the Bank or deposits with the Bank. In general, the Bank matches 50% of qualifying contributions which is expensed in salaries and employee benefits. During 2008, the Bank's contributions totalled \$28 million (2007 — \$27 million; 2006 — \$26 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 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 2008, an aggregate expense of \$89 million (2007 — \$133 million expense; 2006 — \$164 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 was net of losses arising from securities and derivatives used to manage the volatility of stock-based compensation of \$328 million (2007 — gains of \$99 million; 2006 — gains of \$165 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 standalone 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 2008, 2,445,768 SARs were granted (2007 — 2,336,394; 2006 — 2,284,396) and as at October 31, 2008, 21,122,574 SARs were outstanding (2007 — 21,810,096; 2006 — 22,771,720), of which 19,804,585 SARs were vested (2007 — 20,558,130; 2006 — 21,624,273).

#### Deferred Stock Unit Plan (DSU)

Under the DSU Plan, senior executives may elect to receive all or a portion of their cash bonus under the Management 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, 2008, there were 1,595,619 units outstanding (2007 — 1,571,110; 2006 — 1,465,391).

#### 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, 2008, there were 258,115 units outstanding (2007 — 216,335; 2006 — 181,823).

#### 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, 2008, there were 1,794,695 units (2007 — 1,770,405; 2006 — 3,597,093) awarded and outstanding of which 1,404,431 were

vested.

### **Performance Share Unit Plan (PSU)**

Eligible executives receive an award of performance share units that vest at the end of three years. A portion of the PSU awards are subject to performance criteria measured over a three-year period. 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, 2008, there were 3,348,796 units (2007 — 3,477,266; 2006 — 2,422,239) awarded and outstanding [including 1,305,913 (2007 — 1,155,145; 2006 — 800,604) subject to performance criteria] of which 2,542,674 were vested.

### **Scotia Capital Deferred Payment Plan**

Under the Scotia Capital Deferred Payment Plan, a portion of the bonus received by certain employees (which is accrued and expensed in the year to which it relates) is allocated to employees in the form of units. These units are subsequently paid, in cash, to the qualifying employees over each of the following three years.

Changes in the value of the units, which arise from fluctuations in the market price of the Bank's common shares, 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.

## 18 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)	2008	2007	2006
<b>Provision for income taxes in the Consolidated Statement of Income:</b>			
<b>Current income taxes:</b>			
Domestic:			
Federal	\$ 160	\$ 283	\$ 269
Provincial	210	236	178
Foreign	688	650	603
	<u>1,058</u>	<u>1,169</u>	<u>1,050</u>
<b>Future income taxes:</b>			
Domestic:			
Federal	(311)	(134)	(135)
Provincial	(203)	(55)	(11)
Foreign	147	83	(32)
	<u>(367)</u>	<u>(106)</u>	<u>(178)</u>
Total provision for income taxes in the Consolidated Statement of Income	<u>\$ 691</u>	<u>\$ 1,063</u>	<u>\$ 872</u>
<b>Provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity:</b>			
Reported in Other Comprehensive Income	(1,062)	421	—
Cumulative effect of adopting new accounting policy	—	338	(13)
Share issuance costs	(10)	(9)	—
Total provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity	<u>(1,072)</u>	<u>750</u>	<u>(13)</u>
Total provision for (recovery) of income taxes	<u>\$ (381)</u>	<u>\$ 1,813</u>	<u>\$ 859</u>

### (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:

	2008		2007		2006	
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	\$1,289	32.6%	\$1,815	34.7%	\$1,586	34.9%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries and foreign branches	(370)	(9.4)	(467)	(8.9)	(467)	(10.3)
Tax-exempt income from securities	(278)	(7.0)	(313)	(6.0)	(219)	(4.8)
Future income tax effect of substantively enacted tax rate changes	61	1.5	41	0.8	4	0.1
Other, net	(11)	(0.2)	(13)	(0.3)	(32)	(0.7)
Total income taxes and effective tax rate	<u>\$ 691</u>	<u>17.5%</u>	<u>\$1,063</u>	<u>20.3%</u>	<u>\$ 872</u>	<u>19.2%</u>



### (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)	2008	2007
Loss carryforwards <sup>(1)</sup>	\$ 1,053	\$ 101
Allowance for credit losses <sup>(2)</sup>	912	861
Securities	241	(293)
Deferred compensation	220	377
Deferred income	171	132
Loss on disposal of subsidiary operations	79	83
Premises and equipment	(114)	(96)
Pension fund	(277)	(292)
Other	251	241
Net future income taxes <sup>(3)</sup>	\$ 2,536	\$ 1,114

- (1) Includes a gross future tax asset of \$196 as at October 31, 2008 (2007 — \$203) relating to subsidiaries' unused income tax losses. This future tax asset has been reduced by a valuation allowance of \$10 (2007 — \$102), resulting in a net future tax asset of \$186 (2007 — \$101). Should the portion of the valuation allowance related to recent acquisitions be reduced in future periods, the reduction would be applied to goodwill.
- (2) As at October 31, 2008, the future income tax asset related to the allowance for credit losses has been reduced by a valuation allowance of \$241 (2007 — \$213) relating to a subsidiary's unused tax deductions arising from previous years' allowance for credit losses.
- (3) Net future income taxes of \$2,536 (2007 — \$1,114) are represented by future income tax assets of \$2,800 (2007 — \$1,340), net of future income tax liabilities of \$264 (2007 — \$226).

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, 2008, are estimated to be \$788 million (October 31, 2007 — \$444 million).

## 19

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.

	Pension plans			Other benefit plans		
For the year ended October 31 (\$ millions)	2008	2007	2006	2008	2007	2006
<b>Change in benefit obligation</b>						
Benefit obligation at beginning of year	\$ 4,618	\$ 4,588	\$ 4,568	\$ 1,047	\$ 1,075	\$ 1,041
Cost of benefits earned in the year	133	128	143	40	36	42
Interest cost on benefit obligation	274	264	253	66	62	60
Employee contributions	11	11	9	—	—	—
Benefits paid	(271)	(235)	(198)	(50)	(49)	(48)
Actuarial loss (gain)	(441)	5	(75)	(92)	(1)	(2)
Non-routine events <sup>(2)</sup>	24	(50)	(90)	(4)	(29)	(4)
Foreign exchange	66	(93)	(22)	33	(47)	(14)
Benefit obligation at end of year	\$ 4,414	\$ 4,618	\$ 4,588	\$ 1,040	\$ 1,047	\$ 1,075
<b>Change in fair value of assets</b>						
Fair value of assets at beginning of year	\$ 5,733	\$ 5,390	\$ 4,765	\$ 237	\$ 221	\$ 207
Actual return on assets	(105)	601	440	3	30	27
Employer contributions	62	186	488	56	62	42
Employee contributions	11	11	9	—	—	—
Benefits paid	(271)	(235)	(198)	(50)	(49)	(48)
Non-routine events <sup>(2)</sup>	—	(73)	(75)	—	(5)	—
Foreign exchange	107	(147)	(39)	10	(22)	(7)
Fair value of assets at end of year <sup>(3)</sup>	\$ 5,537	\$ 5,733	\$ 5,390	\$ 256	\$ 237	\$ 221
<b>Funded status</b>						
Excess (deficit) of fair value of assets over benefit obligation at end of year <sup>(4)</sup>	\$ 1,123	\$ 1,115	\$ 802	\$ (784)	\$ (810)	\$ (854)
Unrecognized net actuarial loss	318	274	537	186	271	325
Unrecognized past service costs	112	96	86	(6)	(4)	(5)
Unrecognized transitional obligation (asset)	(276)	(308)	(364)	161	178	206
Valuation allowance	(179)	(169)	(195)	—	—	—
Employer contributions after measurement date	7	36	6	11	10	10
Net prepaid (accrued) benefit expense at end of year	\$ 1,105	\$ 1,044	\$ 872	\$ (432)	\$ (355)	\$ (318)
Recorded in:						
Other assets in the Bank's Consolidated Balance Sheet	\$ 1,320	\$ 1,243	\$ 1,054	\$ 17	\$ 13	\$ 6
Other liabilities in the Bank's Consolidated Balance Sheet	(215)	(199)	(182)	(449)	(368)	(324)
Net prepaid (accrued) benefit expense at end of year	\$ 1,105	\$ 1,044	\$ 872	\$ (432)	\$ (355)	\$ (318)

## Annual benefit expense

Cost of benefits earned in the year	\$ 133	\$ 128	\$ 143	\$ 40	\$ 36	\$ 42
Interest cost on benefit obligation	274	264	253	66	62	60
Actual return on assets	105	(601)	(440)	(3)	(30)	(27)
Actuarial loss (gain) on benefit obligation	(441)	5	(75)	(92)	(1)	(2)
Amount of curtailment (gain) loss recognized	(1)	3	(2)	—	(8)	—
Amount of settlement (gain) loss recognized	—	32	1	—	(1)	—
Non-routine events <sup>(2)</sup>	24	24	(15)	(4)	(11)	(4)
Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs	94	(145)	(135)	7	47	69
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	(501)	227	97	(15)	15	12
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation	444	13	125	104	15	19
Difference between amortization of non-routine events and actual non-routine events	(13)	(15)	23	4	11	4
Amortization to recognize transitional obligation (asset)	(39)	(42)	(42)	18	21	22
	(109)	183	203	111	62	57
Change in valuation allowance provided against prepaid benefit expense	10	(26)	13	—	—	—
Benefit expense (income) recognized, excluding defined contribution benefit expense <sup>(4)</sup>	(5)	12	81	118	109	126
Defined contribution benefit expense recognized	6	5	3	—	—	—
<b>Total benefit expense recognized</b>	<b>\$ 1</b>	<b>\$ 17</b>	<b>\$ 84</b>	<b>\$ 118</b>	<b>\$ 109</b>	<b>\$ 126</b>

(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.

(3) The fair value of pension plan assets invested in securities of the Bank totalled \$511 (2007 — \$565; 2006 — \$569).

(4) The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefits plan. Accordingly, the significant turmoil affecting the capital markets since August 31 is not reflected in either the 2008 employee future benefit expense or the funded position of the plans at the end of fiscal year 2008.

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		
	2008	2007	2006	2008	2007	2006
Benefit obligation <sup>(1)</sup>	\$ 659	\$ 613	\$ 628	\$ 1,040	\$ 1,047	\$ 1,075
Fair value of assets	354	326	326	256	237	221
Deficit of fair value of assets over benefit obligation	\$ (305)	\$ (287)	\$ (302)	\$ (784)	\$ (810)	\$ (854)

(1) Includes the benefit obligation of \$264 at the end of 2008 (2007 — \$281; 2006 — \$266) 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		
	2008	2007	2006	2008	2007	2006
To determine benefit obligation at end of year						
Discount rate	6.70%	5.85%	5.75%	6.90%	6.10%	6.00%
Rate of increase in future compensation <sup>(2)</sup>	3.90%	3.75%	3.50%	1.50%	1.40%	4.40%
To determine benefit expense (income) for the year						
Discount rate	5.85%	5.75%	5.50%	6.10%	6.00%	5.75%
Assumed long-term rate of return on assets	7.25%	7.25%	7.50%	7.40%	7.10%	7.60%
Rate of increase in future compensation <sup>(2)</sup>	3.75%	3.50%	3.55%	1.40%	1.35%	4.55%
Health care cost trend rates at end of year						
Initial rate	n/a	n/a	n/a	7.20%	7.40%	8.30%
Ultimate rate	n/a	n/a	n/a	5.00%	4.70%	4.60%
Year ultimate rate reached	n/a	n/a	n/a	2018	2014	2014

(1) Includes international plans which generally have higher rates than Canadian plans. The discount rate used to determine the 2008 benefit expense for all Canadian pension and other benefit plans was 5.6% (2007 — 5.5%; 2006 — 5.25%). The discount rate used for the 2008 end of year benefit obligation was 6.4% for all Canadian pension and other benefit plans (2007 — 5.60%; 2006 — 5.50%) and the assumed long-term rate of return on assets for all Canadian pension plans was 7.25% (2007 — 7.25%; 2006 — 7.25%).

(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, 2008 (\$ millions)	Pension plans		Other benefit plans	
	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Impact of 1% decrease in discount rate	\$714	\$ 78	\$150	\$ 15
Impact of 1% decrease in assumed long-term rate of return on assets	n/a	50	n/a	2
Impact of 0.25% increase in rate of increase in future compensation	47	7	1	—

Impact of 1% increase in health care cost trend rate	n/a	n/a	118	21
Impact of 1% decrease in health care cost trend rate	n/a	n/a	(96)	(16)

## 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. 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 spread 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 are hired and assigned specific mandates. To enhance diversification, several investment managers — including related-party managers — are typically used for each asset class.

Pension plan asset mix guidelines are set for the long term, and are documented in each plan's investment policy. 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 2008	Actual 2008	Actual 2007	Actual 2006	Target 2008	Actual 2008	Actual 2007	Actual 2006
Equity investments	64%	64%	65%	67%	37%	35%	24%	17%
Fixed income investments	35%	35%	34%	32%	63%	65%	76%	83%
Other	1%	1%	1%	1%	—%	—%	—	—
Total	100%	100%	100%	100%	100%	100%	100%	100%

## Consolidated Financial Statements

### 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, 2006, and the date of the next required valuation is November 1, 2009 (this plan accounts for 69% of principal pension plans' benefit obligation and 72% 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, 2008 for the other post-retirement benefits and July 31, 2006 for post-employment benefits. The next actuarial valuations are currently scheduled in fiscal 2009 for post-employment benefits and fiscal 2010 for post-retirement benefits.

### Cash payments and contributions

In fiscal year 2008, the Bank made cash payments of \$33 million (2007 — \$216 million; 2006 — \$404 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 \$57 million (2007 — \$62 million; 2006 — \$45 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 \$6 million (2007 — \$5 million; 2006 — \$3 million) to the principal defined contribution pension plans.

### 20 Earnings per common share

For the year ended October 31 (\$ millions)	2008	2007	2006
<b>Basic earnings per common share</b>			
Net income	\$ 3,140	\$ 4,045	\$ 3,579
Preferred dividends paid	107	51	30
Net income available to common shareholders	\$ 3,033	\$ 3,994	\$ 3,549
Average number of common shares outstanding (millions)	987	989	988
Basic earnings per common share <sup>(1)</sup>	\$ 3.07	\$ 4.04	\$ 3.59
<b>Diluted earnings per common share</b>			
Net income available to common shareholders	\$ 3,033	\$ 3,994	\$ 3,549
Average number of common shares outstanding (millions)	987	989	988
Stock options potentially exercisable (millions) <sup>(2)</sup>	6	8	13
Average number of diluted common shares outstanding (millions) <sup>(3)</sup>	993	997	1,001
Diluted earnings per common share <sup>(1)</sup>	\$ 3.05	\$ 4.01	\$ 3.55

(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.

### 21 Related party transactions

In the ordinary course of business, the Bank provides normal banking services to its associated and other related corporations on terms similar to those offered to non-related parties.

In Canada, loans are currently granted to directors, officers and employees at market terms and conditions. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers and employees of those foreign units at reduced rates or on preferred terms. Effective March 1, 2001, the Bank discontinued the practice of granting loans to officers and employees in Canada at reduced rates. Any of these loans granted prior to March 1, 2001, are grandfathered until maturity.

Directors can use some or all of their director fees earned to buy common shares of the Bank 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 fiscal 2004, the Bank no longer grants stock options to non-officer directors. Refer to Note 17 — Stock-based compensation for further details of these plans.

## **22** 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. The Bank is organized into three main operating segments: Canadian Banking (formerly known as Domestic Banking), International Banking, 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, personal trust services, retail brokerage, mutual funds and transaction services. In addition to credit, commercial clients are provided with deposit and cash management services.

International Banking supplies 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.

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 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.

Because of 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.

For the year ended October 31, 2008 (\$ millions)

Taxable equivalent basis	Canadian Banking	International Banking	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income	\$ 4,324	\$ 3,315	\$1,120	\$(1,185)	\$ 7,574
Provision for credit losses	399	236	(5)	—	630
Other income	2,174	1,282	707	139	4,302
Net interest and other income	6,099	4,361	1,832	(1,046)	11,246
Depreciation and amortization	159	104	25	3	291
Other non-interest expenses	3,473	2,530	912	90	7,005
Income before the undernoted:	2,467	1,727	895	(1,139)	3,950
Provision for income taxes	743	422	108	(582)	691
Non-controlling interest in net income of subsidiaries	—	119	—	—	119
<b>Net income</b>	<b>\$ 1,724</b>	<b>\$ 1,186</b>	<b>\$ 787</b>	<b>\$ (557)</b>	<b>\$ 3,140</b>
Preferred dividends paid					107
<b>Net income available to common shareholders<sup>(2)</sup></b>					<b>\$ 3,033</b>
<b>Total average assets (\$ billions)</b>	<b>\$ 175</b>	<b>\$ 79</b>	<b>\$ 164</b>	<b>\$ 37</b>	<b>\$ 455</b>

For the year ended October 31, 2007 (\$ millions)

Taxable equivalent basis	Canadian Banking	International Banking	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income	\$ 3,855	\$ 2,762	\$1,160	\$(679)	\$ 7,098
Provision for credit losses	295	101	(101)	(25)	270
Other income	2,248	1,227	1,290	627	5,392
Net interest and other income	5,808	3,888	2,551	(27)	12,220
Depreciation and amortization	158	84	23	2	267
Other non-interest expenses	3,401	2,195	990	141	6,727
Income before the undernoted:	2,249	1,609	1,538	(170)	5,226
Provision for income taxes	685	241	413	(276)	1,063
Non-controlling interest in net income of subsidiaries	—	118	—	—	118
<b>Net income</b>	<b>\$ 1,564</b>	<b>\$ 1,250</b>	<b>\$1,125</b>	<b>\$ 106</b>	<b>\$ 4,045</b>
Preferred dividends paid					51
<b>Net income available to common shareholders<sup>(2)</sup></b>					<b>\$ 3,994</b>
<b>Total average assets (\$ billions)</b>	<b>\$ 154</b>	<b>\$ 66</b>	<b>\$ 152</b>	<b>\$ 31</b>	<b>\$ 403</b>

For the year ended October 31, 2006 (\$ millions)

Taxable equivalent basis	Canadian Banking	International Banking	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income	\$ 3,682	\$ 2,306	\$ 951	\$(531)	\$ 6,408
Provision for credit losses	279	60	(63)	(60)	216
Other income	1,935	939	1,437	489	4,800
Net interest and other income	5,338	3,185	2,451	18	10,992
Depreciation and amortization	143	62	23	2	230



Other non-interest expenses	3,326	1,865	932	90	6,213
Income before the undernoted:	1,869	1,258	1,496	(74)	4,549
Provision for income taxes	581	98	443	(250)	872
Non-controlling interest in net income of subsidiaries	—	98	—	—	98
<b>Net income</b>	<b>\$ 1,288</b>	<b>\$ 1,062</b>	<b>\$1,053</b>	<b>\$ 176</b>	<b>\$ 3,579</b>
Preferred dividends paid					30
<b>Net income available to common shareholders<sup>(2)</sup></b>					<b>\$ 3,549</b>
<b>Total average assets (\$ billions)</b>	<b>\$ 136</b>	<b>\$ 56</b>	<b>\$ 130</b>	<b>\$ 29</b>	<b>\$ 351</b>

(1) Includes revenues from all other smaller operating segments of (\$224) in 2008 (2007 — \$594; 2006 — \$372), and net income/(loss) of (\$200) in 2008 (2007 — \$316; 2006 — \$209). 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 \$416 in 2008 (2007 — \$531; 2006 — \$440), 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 in 2008, the reporting of segment profitability has been changed from net income available to common shareholders to net income. Prior periods have been restated.

## Consolidated Financial Statements

### 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, 2008 (\$ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	\$4,471	\$ 236	\$ 903	\$ 2,627	\$8,237
Provision for credit losses	388	16	141	85	630
Other income	2,614	(202)	478	1,137	4,027
Non-interest expenses	4,315	200	793	1,982	7,290
Provision for income taxes	344	(98)	122	369	737
Non-controlling interest in net income of subsidiaries	—	—	9	110	119
	<u>\$2,038</u>	<u>\$ (84)</u>	<u>\$ 316</u>	<u>\$ 1,218</u>	<u>\$3,488</u>
Preferred dividends paid					97
Corporate adjustments					(358)
<b>Net income available to common shareholders</b>					<b>\$3,033</b>
<b>Total average assets (\$ billions)</b>	<u>\$ 293</u>	<u>\$ 30</u>	<u>\$ 20</u>	<u>\$ 102</u>	<u>\$ 445</u>
Corporate adjustments					10
<b>Total average assets, including corporate adjustments</b>					<b>\$ 455</b>

For the year ended October 31, 2007 (\$ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	\$4,294	\$ 152	\$ 887	\$ 2,012	\$7,345
Provision for credit losses	295	(91)	68	23	295
Other income	3,084	698	478	930	5,190
Non-interest expenses	4,285	224	723	1,712	6,944
Provision for income taxes	474	215	51	225	965
Non-controlling interest in net income of subsidiaries	—	—	12	106	118
	<u>\$2,324</u>	<u>\$ 502</u>	<u>\$ 511</u>	<u>\$ 876</u>	<u>\$4,213</u>
Preferred dividends paid					46
Corporate adjustments					(173)
<b>Net income available to common shareholders</b>					<b>\$3,994</b>
<b>Total average assets (\$ billions)</b>	<u>\$ 265</u>	<u>\$ 29</u>	<u>\$ 21</u>	<u>\$ 81</u>	<u>\$ 396</u>
Corporate adjustments					7
<b>Total average assets, including corporate adjustments</b>					<b>\$ 403</b>

For the year ended October 31, 2006 (\$ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	\$4,029	\$ 71	\$ 802	\$ 1,656	\$6,558
Provision for credit losses	273	(41)	27	17	276
Other income	2,883	581	403	726	4,593
Non-interest expenses	4,110	241	630	1,448	6,429
Provision for income taxes	478	138	(17)	153	752
Non-controlling interest in net income of subsidiaries	—	—	15	83	98
	<u>\$2,051</u>	<u>\$ 314</u>	<u>\$ 550</u>	<u>\$ 681</u>	<u>\$3,596</u>
Preferred dividends paid					24
Corporate adjustments					(23)

<b>Net income available to common shareholders</b>						<u>\$3,549</u>
<b>Total average assets (\$ billions)</b>	<u>\$ 227</u>	<u>\$ 31</u>	<u>\$ 21</u>	<u>\$ 66</u>		<u>\$ 345</u>
Corporate adjustments						<u>6</u>
<b>Total average assets, including corporate adjustments</b>						<u>\$ 351</u>

---

(1) Revenues are attributed to countries based on where services are performed or assets are recorded.

## 23 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)	2008		2007	
	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	\$	27,808	\$	18,435
Liquidity facilities		18,311		22,475
Derivative instruments		1,738		1,361
Securitizations		170		170
Indemnifications		565		500

(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.

#### (i) 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, 2008, \$8 million (2007 — \$11 million) was included in other liabilities in the Consolidated Balance Sheet with respect to these guarantees.

#### (ii) 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 \$18,311 million (2007 — \$22,475 million) in backstop liquidity facilities provided to asset-backed commercial paper conduits, 93% (2007 — 89%) 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, 2008, these credit enhancements amounted to \$1,269 million (2007 — \$1,187 million) and are considered 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.

#### (iii) 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, 2008, \$405 million (2007 — \$57 million) was included in derivative instruments in the Consolidated Balance Sheet with respect to these derivative instruments.

#### **(iv) Securitizations**

The Bank's revolving securitization agreements may require payments to be made to the trusts under certain limited circumstances. These guarantees will be outstanding for the remaining term to maturity of the trusts' securitization notes, which is on average 16 months. These payments are contingent on failure to maintain a minimum pool size due to the occurrence of certain limited predefined events.

#### **(v) 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 past conduct if other parties fail to perform, 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, 2008, \$7 million (2007 — \$10 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

## Consolidated Financial Statements

### (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. 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)	2008 <sup>(1)</sup>	2007 <sup>(2)</sup>
Commercial letters of credit	\$ 1,868	\$ 1,186
Commitments to extend credit <sup>(2)</sup>		
Original term to maturity of one year or less	68,736	67,861
Original term to maturity of more than one year	61,497	46,388
Securities lending	8,975	10,965
Security purchase and other commitments	1,986	1,676
Total	\$143,062	\$128,076

(1) Amounts relating to variable interest entities are disclosed in Note 6.

(2) Includes liquidity facilities, net of credit enhancements.

### (c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2008, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year (\$ millions)	2009	\$193
	2010	169
	2011	140
	2012	112
	2013	85
	2014 and thereafter	282
Total		\$981

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was \$217 million (2007 — \$197 million; 2006 — \$181 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)	2008	2007
<b>Assets pledged to:</b>		
Bank of Canada <sup>(1)</sup>	\$ 20	\$ 30
Foreign governments and central banks <sup>(1)</sup>	12,123	3,011
Clearing systems, payment systems and depositories <sup>(1)</sup>	1,498	1,629
Assets pledged in relation to exchange-traded derivative transactions	284	179
Assets pledged as collateral related to securities borrowed, and securities lent	22,237	29,585
Assets pledged in relation to over-the-counter derivative transactions	7,382	4,049
Other	1,764	1,692
<b>Total assets pledged</b>	<b>\$45,308</b>	<b>\$40,175</b>
Obligations related to securities sold under repurchase agreements	36,506	28,137
<b>Total</b>	<b>\$81,814</b>	<b>\$68,312</b>

(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.

### (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.

## 24 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 has a comprehensive risk management framework to monitor, evaluate and manage these risks. This risk management framework has four main components, 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 25. Note 27 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 to ensure the goals for the overall portfolio are met.

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 writeoffs. 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 27(c).

## Consolidated Financial Statements

### (i) Credit risk exposures

Credit risk exposures disclosed below are presented based on Basel II approaches utilized by the Bank. All material portfolios in Canada, US and Europe are treated under the advanced internal ratings based approach (AIRB) and 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 takes into account other factors such as specific provisions for defaulted exposures, eligible collateral, and loan-to-value for real estate secured retail exposures.

As at October 31 (\$ millions)	Exposure at default <sup>(1)</sup>			Total
	Drawn <sup>(2)</sup>	Undrawn commitments	Other exposures <sup>(3)</sup>	
By counterparty type				
Non-retail				
AIRB portfolio				
Corporate	\$ 68,024	\$ 39,855	\$ 52,400	\$160,279
Bank	23,736	16,480	29,256	69,472
Sovereign <sup>(4)</sup>	46,111	4,038	3,149	53,298
	137,871	60,373	84,805	283,049
Standardized portfolio				
Corporate	49,593	4,079	2,542	56,214
Bank	9,276	109	361	9,746
Sovereign	11,754	309	5	12,068
	70,623	4,497	2,908	78,028
Total non-retail	\$208,494	\$ 64,870	\$ 87,713	\$361,077
Retail				
AIRB portfolio				
Real estate secured	\$ 78,423	\$ 221	\$ —	\$ 78,644
Qualifying revolving	12,051	7,076	—	19,127
Other retail	9,754	23	—	9,777
	100,228	7,320	—	107,548
Standardized portfolio				
Real estate secured	23,697	—	—	23,697
Other retail	13,699	220	—	13,919
	37,396	220	—	37,616
Total retail	\$137,624	\$ 7,540	—	\$145,164
Total	\$346,118	\$ 72,410	\$ 87,713	\$506,241
By geography <sup>(5)</sup>				
Canada	\$199,672	\$ 44,376	\$ 34,722	\$278,770

United States	34,262	17,949	37,240	<b>89,451</b>
Mexico	13,858	332	947	<b>15,137</b>
Other International				
Europe	26,298	4,637	8,551	<b>39,486</b>
Caribbean	27,085	1,632	2,071	<b>30,788</b>
Latin America (excluding Mexico)	20,751	844	1,058	<b>22,653</b>
All Other	24,192	2,640	3,124	<b>29,956</b>
<b>Total</b>	<b>\$346,118</b>	<b>\$ 72,410</b>	<b>\$ 87,713</b>	<b>\$506,241</b>

- 
- (1) After credit risk mitigation, Basel II approaches, 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 140 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.

As at October 31, 2008 (\$ millions)	Balance sheet asset exposures				
	Drawn <sup>(1)</sup>		Other exposures		
	Non-retail	Retail	Securitization	Repo-style transactions	Derivatives
Deposits with banks	\$ 28,208	\$ —	\$ —	\$ 5,132	\$ —
Available-for-sale debt securities	20,201	6,066	9,724	—	—
Residential mortgages	33,959 <sup>(2)</sup>	80,836	—	—	—
Personal and credit cards loans	—	50,603	—	—	—
Securities purchased under resale agreements	—	—	—	19,445	—
Business and government loans	114,157	—	194	3,228	—
Customers' liability under acceptances	11,969	—	—	—	—
Derivative instruments	—	—	—	—	44,810
Other assets	—	119	—	—	—
<b>Total</b>	<b>\$208,494</b>	<b>\$137,624</b>	<b>\$ 9,918</b>	<b>\$ 27,805</b>	<b>\$ 44,810</b>

(1) Gross of allowances for credit losses for AIRB exposures and net of specific allowances for standardized exposures.

(2) Includes \$33.2 billion in mortgages guaranteed by Canada Mortgage Housing Corporation.

### (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, 2008, 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	
	Moodys	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		

## Consolidated Financial Statements

### 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)	Exposure at default <sup>(1)</sup>			Total
	Drawn	Undrawn commitments	Other exposures <sup>(2)</sup>	
Category of internal grades				
Investment grade	\$ 65,615	\$ 44,629	\$ 78,660	<b>\$188,904</b>
Non-investment grade	36,757	12,266	5,568	<b>54,591</b>
Watch list	2,009	379	348	<b>2,736</b>
Default	258	28	11	<b>297</b>
Total, excluding residential mortgages	\$104,639	\$ 57,302	\$ 84,587	<b>\$246,528</b>
Government guaranteed residential mortgages <sup>(3)</sup>	33,232	3,071	—	<b>36,303</b>
<b>Total</b>	<b>\$137,871</b>	<b>\$ 60,373</b>	<b>\$ 84,587</b>	<b>\$282,831</b>

(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 \$218) 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, 2008 comprised of drawn, undrawn and other exposures to corporate, bank and sovereign counterparties amounted to \$78 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 in Canada is customer rather 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. As at October 31, 2008, the amount of retail loans that were past due but not impaired was not significant.

### 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)	PD range	Exposure at default <sup>(1)</sup>				Total
		Real estate secured Mortgages	Line of credit	Qualifying revolving	Other retail	
Category of (PD) grades						
Very low	0.0000 - 0.2099%	\$ 49,440	\$ 12,513	\$ 7,755	\$4,506	<b>\$ 74,214</b>
Low	0.2100 - 0.4599%	8,204	1,039	3,860	2,071	<b>15,174</b>
Medium	0.4600 - 3.1999%	5,921	849	6,406	2,686	<b>15,862</b>
High	3.2000 - 17.2899%	342	227	599	300	<b>1,468</b>
Very high	17.2900 - 99.9999%	—	—	395	123	<b>518</b>
Default	100%	93	16	112	91	<b>312</b>
<b>Total</b>		<b>\$ 64,000</b>	<b>\$ 14,644</b>	<b>\$19,127</b>	<b>\$9,777</b>	<b>\$107,548</b>

(1) After credit risk mitigation.

### Retail standardized portfolio

Retail standardized portfolio of \$38 billion as at October 31, 2008 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 \$38 billion standardized retail exposures, \$24 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, the Bank receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The Bank is normally permitted to sell or repledge the collateral it receives under terms that are common and customary to standard derivative, securities borrowing and lending, and other lending activities.

**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 23(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.

**(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;
- 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, (see table below) 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.

**(i) Liquid assets**

The table below shows the Bank's liquid assets:

As at October 31 (\$ millions)	2008		
	Canadian dollar	Foreign currency	Total
Cash and deposits with the Bank of Canada	\$ 498	\$ 3,064	\$ 3,562
Deposits with other banks	1,654	32,102	33,756
Securities	46,558	21,298	67,856
Call and short loans	—	1,087	1,087
	\$48,710	\$57,551	\$106,261
Liquid assets as a % of total assets			20.9%

**(ii) Contractual maturities**

The table below shows the contractual maturities of certain of the Bank's financial liabilities:

					2008
Payable on	Payable after	Payable in less	Payable in one	Payable in greater	

As at October 31 (\$ millions)	demand	notice	than one year	to five years	than five years	Total
Deposits	\$ 37,157	\$ 52,312	\$ 186,818	\$ 63,659	\$ 6,634	<b>\$346,580</b>
Subordinated debentures	—	—	—	252	4,100	<b>4,352</b>
Capital instrument liabilities	—	—	—	—	500	<b>500</b>
Total	\$ 37,157	\$ 52,312	\$ 186,818	\$ 63,911	\$ 11,234	<b>\$351,432</b>

### (iii) 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, 2008, the majority of commitments to extend credit had a remaining term to maturity of less than one year.

### (iv) 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 27 (b).



---

## Consolidated Financial Statements

### (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.

VaR is a statistical measure that estimates the potential loss in value of the Bank's trading 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 200 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 earlier of contractual repricing or maturity dates on the basis of expected repricing dates.

### (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 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.

As at October 31, 2008 (\$ millions)	Immediately rate sensitive <sup>(1)</sup>	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	\$ 700	\$ 26,552	\$ 4,570	\$ 468	\$ 17	\$ 5,011	\$ 37,318
Trading securities	—	3,424	4,847	10,988	9,747	19,286	48,292
Securities, other than trading	1,111	6,701	4,858	15,920	7,022	4,131 <sup>(2)</sup>	39,743
Securities purchased under resale agreements	—	18,974	477	—	—	—	19,451
Loans	37,355	140,070	31,571	72,144	7,672	(132) <sup>(3)</sup>	288,680
Other assets	—	—	—	—	—	74,141 <sup>(4)</sup>	74,141
<b>Total assets</b>	<b>\$ 39,166</b>	<b>\$195,721</b>	<b>\$46,323</b>	<b>\$ 99,520</b>	<b>\$24,458</b>	<b>\$102,437</b>	<b>\$507,625</b>
Deposits	\$ 36,052	\$198,212	\$45,561	\$ 51,215	\$ 3,046	\$ 12,494	\$346,580
Obligations related to securities sold under repurchase agreements	—	35,998	508	—	—	—	36,506
Obligations related to securities sold short	—	751	563	3,296	6,445	645	11,700
Subordinated debentures	—	—	586	3,228	538	—	4,352
Capital instrument liabilities	—	—	—	500	—	—	500
Other liabilities	—	—	—	—	—	86,345 <sup>(4)</sup>	86,345
Shareholders' equity	—	—	—	—	—	21,642 <sup>(4)</sup>	21,642
<b>Total liabilities and shareholders' equity</b>	<b>\$ 36,052</b>	<b>\$234,961</b>	<b>\$47,218</b>	<b>\$ 58,239</b>	<b>\$10,029</b>	<b>\$121,126</b>	<b>\$507,625</b>
On-balance sheet gap	3,114	(39,240)	(895)	41,281	14,429	(18,689)	—
Derivative instruments	—	12,400	(2,321)	(10,486)	407	—	—
Interest rate sensitivity gap based on contractual repricing	3,114	(26,840)	(3,216)	30,795	14,836	(18,689)	—
Adjustment to expected repricing	10,013	36,501	(6,716)	(27,657)	(6,531)	(5,610)	—
<b>Total interest rate sensitivity gap</b>	<b>\$ 13,127</b>	<b>\$ 9,661</b>	<b>\$ (9,932)</b>	<b>\$ 3,138</b>	<b>\$ 8,305</b>	<b>\$ (24,299)</b>	<b>\$ —</b>
<b>Cumulative gap</b>	<b>\$ 13,127</b>	<b>\$ 22,788</b>	<b>\$12,856</b>	<b>\$ 15,994</b>	<b>\$24,299</b>	<b>\$ —</b>	<b>\$ —</b>

As at October 31, 2007 (\$ millions)

Total interest rate sensitivity gap <sup>(5)</sup>	\$ 17,493	\$ (2,865)	\$ (6,980)	\$ 14,858	\$ 2,614	\$ (25,120)	\$ —
Cumulative gap <sup>(5)</sup>	\$ 17,493	\$ 14,628	\$ 7,648	\$ 22,506	\$25,120	\$ —	\$ —

(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.

(5) Certain comparative amounts have been reclassified to conform with current period presentation.



## Consolidated Financial Statements

### 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, 2008	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	3.1%	2.2%	5.1%	3.2%	2.7%	2.6%
Trading securities	—	4.4	2.9	4.6	5.2	4.5
Securities, other than trading <sup>(2)</sup>	4.0	4.9	4.6	4.7	6.6	5.1
Securities purchased under resale agreements	—	3.6	3.2	—	—	3.6
Loans <sup>(3)</sup>	5.6	5.2	5.7	6.0	7.9	5.6
Deposits <sup>(4)</sup>	2.9	3.3	3.8	4.6	3.1	3.5
Obligations related to securities sold under repurchase agreements <sup>(4)</sup>	—	3.3	5.6	—	—	3.3
Obligations related to securities sold short	—	1.7	2.0	2.9	4.3	3.6
Subordinated debentures <sup>(4)</sup>	—	—	4.8	5.5	5.6	5.4 <sup>(1)</sup>
Capital instrument liabilities <sup>(4)</sup>	—	—	—	7.3	—	7.3

As at October 31, 2007	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	4.9%	4.4%	5.2%	4.7%	5.0%	4.6%
Trading securities	—	6.5	4.9	5.0	5.7	5.5
Securities, other than trading <sup>(2)</sup>	5.5	5.1	5.4	5.5	6.2	5.6
Securities purchased under resale agreements	—	4.9	5.3	—	—	4.9
Loans <sup>(3)</sup>	6.6	6.5	6.1	5.8	8.2	6.3
Deposits <sup>(4)</sup>	3.8	4.3	4.4	4.0	4.1	4.2
Obligations related to securities sold under repurchase agreements <sup>(4)</sup>	—	5.2	5.4	—	—	5.2
Obligations related to securities sold short	—	4.1	4.3	4.0	4.6	4.3
Subordinated debentures <sup>(4)</sup>	—	—	5.9	5.6	8.6	6.6 <sup>(1)</sup>
Capital instrument liabilities <sup>(4)</sup>	—	—	—	7.3	—	7.3

(1) After adjusting for the impact of related derivatives, the yield was 5.4% (2007 — 5.5%).

(2) 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.

(3) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any unearned income.

(4) Yields are based on book values and contractual rates.

### Interest rate sensitivity

Based on the Bank's interest rate positions as at October 31, 2008, the following table shows the potential 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 basis point increase and decrease in interest rates across all currencies.

As at October 31 (\$ millions)	2008 increase (decrease)	
	Net income	Economic value of equity
100 bp increase	\$ 89.3	\$ (372.5)
100 bp decrease	\$ (99.5)	\$ 345.8

## (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, 2008, a one per cent increase (decrease) in the Canadian dollar against all currencies in which the Bank operates decreases (increases) the Bank's before-tax annual earnings by approximately \$38 million in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar would increase (decrease) the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately \$174 million as at October 31, 2008, net of hedging.

## (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.

The majority of the Bank's equity investment portfolios are managed by Group Treasury under the strategic direction of the LCO. Group Treasury delegates the management of a portion of equity and equity-related portfolios to Scotia Cassels Investment Counsel Limited and 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.

## (iv) Trading portfolio risk management

The Bank'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 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 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, a one-day holding period and historical simulations based on 300 days of market data. This means that, on average, the trading book may lose more than the VaR about once every 100 days. The table below shows the Bank's VaR by risk factor:

### One-day VaR by risk factor

(\$ millions)	As at October 31, 2008	For the year ended October 31, 2008		
		Average	High	Low

Interest rate	\$	23.8	\$	14.2	\$	25.0	\$	9.7
Equities		4.9		4.8		24.9		2.1
Foreign exchange		1.7		1.1		4.7		0.4
Commodities		3.4		3.1		4.7		1.9
Diversification		(7.3)		(6.4)		N/A		N/A
All-Bank VaR	\$	26.5	\$	16.8	\$	30.4	\$	10.8

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)	2008			2007		
	Total fair value	Total carrying value	Favourable/ (Unfavourable)	Total fair value	Total carrying value	Favourable/ (Unfavourable)
<b>Assets:</b>						
Cash resources	\$ 37,318	\$ 37,318	\$ —	\$ 29,195	\$ 29,195	\$ —
Securities	88,035	88,035	—	88,835	88,835	—
Securities purchased under resale agreements	19,451	19,451	—	22,542	22,542	—
Loans	288,624	288,680	(56)	226,731	227,147	(416)
Customers' liability under acceptances	11,969	11,969	—	11,538	11,538	—
Derivative Instrument (Note 27)	44,810	44,810	—	21,960	21,960	—
Other	7,396	7,396	—	4,180	4,180	—
<b>Liabilities:</b>						
Deposits	347,242	346,580	(662)	288,726	288,458	(268)
Acceptances	11,969	11,969	—	11,538	11,538	—
Obligations related to securities sold under repurchase agreements	36,506	36,506	—	28,137	28,137	—
Obligations related to securities sold short	11,700	11,700	—	16,039	16,039	—
Other	29,805	29,805	—	20,722	20,722	—
Subordinated debentures	4,155	4,352	197	1,788	1,710	(78)
Capital instrument liabilities	522	500	(22)	529	500	(29)



Derivatives Instruments (Note 27)	42,811	42,811	—	24,689	24,689	—
-----------------------------------	--------	--------	---	--------	--------	---

### Determination of fair value

The following methods and assumptions were used to estimate the fair values of financial instruments (refer to Note 27 (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 fair value of obligations related to securities sold short is assumed to be equal to their book value as they 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.

## 26 Items 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.

The Bank's trading operations transact credit derivatives for customers. The Bank may purchase the underlying loan (s) from another counterparty to economically hedge the derivative exposure. As a result, the Bank significantly reduces or eliminates an accounting mismatch between the two instruments. The fair value of these loans was \$7.5 billion as at October 31, 2008 (October 31, 2007 — \$4.1 billion; November 1, 2006 — \$3.3 billion). The change in fair value that was recorded through trading income for the year ended October 31, 2008 was a loss of \$1,765 million (October 31, 2007 — gain of \$234 million). These changes in fair value were substantially offset by the changes in the fair value of the related credit derivatives.

The Bank's trading operations purchase loan assets in specifically authorized portfolios for which performance is evaluated on a fair value basis. The fair value of these loans was \$56 million as at October 31, 2008 (October 31, 2007 — \$151 million; November 1, 2006 — \$164 million). The change in fair value that was recorded through trading income for the year ended October 31, 2008 was a loss of \$3 million (October 31, 2007 — gain of \$11 million).

The Bank has classified certain debt and equity investments as trading securities to reduce an accounting mismatch between these assets and fair value changes in related derivatives. The fair value of these trading securities was \$565 million as at October 31, 2008 (October 31, 2007 — \$39 million; November 1, 2006 — nil). The change in fair value that was recorded through trading income for the year ended October 31, 2008 was a loss of \$41 million (October 31, 2007 — loss of less than \$1 million).

The Bank has classified certain deposit note liabilities containing extension features as trading, in order to significantly reduce an accounting mismatch between these liabilities and fair value changes in related derivatives. The fair value of these liabilities was \$297 million as at October 31, 2008 (October 31, 2007 — \$847 million; November 1, 2006 — \$785 million). The change in fair value that was recorded through net interest income for the year ended October 31, 2008 was a loss of \$15 million (October 31, 2007 — gain of \$4 million). The change in fair value, which is mainly attributable to changes in interest rates, was substantially offset by the change in fair value of the related derivatives. As at October 31, 2008, the Bank is contractually obligated to pay \$295 million to the holders of the notes at maturity (October 31, 2007 — \$853 million; November 1, 2006 — \$789 million).

## 27 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 base metal derivatives.

As at October 31 (\$ millions)	2008			2007		
	Trading	ALM	Total	Trading	ALM	Total
<b>Interest rate contracts</b>						
Exchange-traded:						
Futures	\$ 65,209	\$ 6,750	\$ 71,959	\$ 74,620	\$ 12,706	\$ 87,326
Options purchased	20,045	—	20,045	3,378	—	3,378
Options written	24,604	—	24,604	9,702	—	9,702
	109,858	6,750	116,608	87,700	12,706	100,406
Over-the-counter:						
Forward rate agreements	30,509	1,404	31,913	23,387	9,688	33,075
Swaps	649,302	92,430	741,732	468,382	96,883	565,265

Options purchased	49,984	2,383	<b>52,367</b>	49,378	5,663	55,041
Options written	37,700	1,375	<b>39,075</b>	28,192	353	28,545
	767,495	97,592	<b>865,087</b>	569,339	112,587	681,926
Total	<b>\$ 877,353</b>	<b>\$104,342</b>	<b>\$ 981,695</b>	<b>\$ 657,039</b>	<b>\$125,293</b>	<b>\$ 782,332</b>

### Foreign exchange and gold contracts

Exchange-traded:						
Futures	\$ 4,239	\$ —	<b>\$ 4,239</b>	\$ 9,548	\$ —	\$ 9,548
Options purchased	293	—	<b>293</b>	56	—	56
Options written	262	—	<b>262</b>	72	—	72
	4,794	—	<b>4,794</b>	9,676	—	9,676

Over-the-counter:						
Spot and forwards	261,911	24,279	<b>286,190</b>	254,239	13,158	267,397
Swaps	84,695	42,310	<b>127,005</b>	63,345	34,168	97,513
Options purchased	4,358	—	<b>4,358</b>	2,567	—	2,567
Options written	4,646	—	<b>4,646</b>	2,526	—	2,526
	355,610	66,589	<b>422,199</b>	322,677	47,326	370,003
Total	<b>\$ 360,404</b>	<b>\$ 66,589</b>	<b>\$ 426,993</b>	<b>\$ 332,353</b>	<b>\$ 47,326</b>	<b>\$ 379,679</b>

### Other derivative contracts

Equity: over-the-counter	\$ 22,921	\$ 2,931	<b>\$ 25,852</b>	\$ 34,382	\$ 3,928	\$ 38,310
Credit: over-the-counter	119,583	816	<b>120,399</b>	79,135	1,490	80,625
Other	6,959	43	<b>7,002</b>	6,078	43	6,121
Total	<b>\$ 149,463</b>	<b>\$ 3,790</b>	<b>\$ 153,253</b>	<b>\$ 119,595</b>	<b>\$ 5,461</b>	<b>\$ 125,056</b>

Total notional amounts outstanding	<b>\$1,387,220</b>	<b>\$174,721</b>	<b>\$1,561,941</b>	<b>\$1,108,987</b>	<b>\$178,080</b>	<b>\$1,287,067</b>
------------------------------------	--------------------	------------------	--------------------	--------------------	------------------	--------------------

## Consolidated Financial Statements

### (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, 2008 (\$ millions)	Within 1 year	One to 5 years	Over 5 years	Total
<b>Interest rate contracts</b>				
Futures	\$ 58,968	\$ 12,991	\$ —	\$ 71,959
Forward rate agreements	31,913	—	—	31,913
Swaps	257,450	353,842	130,440	741,732
Options purchased	58,651	13,169	592	72,412
Options written	47,497	11,987	4,195	63,679
	454,479	391,989	135,227	981,695
<b>Foreign exchange and gold contracts</b>				
Futures	2,602	1,637	—	4,239
Spot and forwards	275,526	9,875	789	286,190
Swaps	38,984	52,889	35,132	127,005
Options purchased	4,302	349	—	4,651
Options written	4,524	384	—	4,908
	325,938	65,134	35,921	426,993
<b>Other derivative contracts</b>				
Equity	19,485	6,035	332	25,852
Credit	12,337	48,354	59,708	120,399
Other	4,862	2,140	—	7,002
	36,684	56,529	60,040	153,253
<b>Total</b>	<b>\$817,101</b>	<b>\$513,652</b>	<b>\$231,188</b>	<b>\$1,561,941</b>
As at October 31, 2007 (\$ millions)	Within 1 year	One to 5 years	Over 5 years	Total
<b>Interest rate contracts</b>				
Futures	\$ 43,804	\$ 43,522	\$ —	\$ 87,326
Forward rate agreements	32,677	398	—	33,075
Swaps	188,392	270,222	106,651	565,265
Options purchased	49,353	8,780	286	58,419
Options written	26,151	7,829	4,267	38,247
	340,377	330,751	111,204	782,332
<b>Foreign exchange and gold contracts</b>				
Futures	5,731	3,817	—	9,548
Spot and forwards	257,560	9,045	792	267,397
Swaps	13,905	55,922	27,686	97,513
Options purchased	2,547	76	—	2,623
Options written	2,502	96	—	2,598
	282,245	68,956	28,478	379,679
<b>Other derivative contracts</b>				
Equity	34,432	3,474	404	38,310
Credit	9,447	28,472	42,706	80,625
Other	3,656	2,465	—	6,121
	47,535	34,411	43,110	125,056
<b>Total</b>	<b>\$670,157</b>	<b>\$434,118</b>	<b>\$182,792</b>	<b>\$1,287,067</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, 2008.

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 without taking into account any master netting or collateral arrangements that have been made. The CRA does not reflect actual or expected losses.

The credit equivalent amount (CEA) is the CRA plus an add-on for potential future exposure. The add-on amount is based on a formula prescribed in the Capital Adequacy Guideline of the Superintendent. The risk-weighted balance is 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 base metal derivatives.

As at October 31 (\$ millions)	2008				2007	
	Notional amount	Credit risk amount (CRA) (a)	Potential future exposure (b)	Credit equivalent amount (CEA) (a) + (b)	Credit risk amount (CRA)	Credit equivalent amount (CEA)
<b>Interest rate contracts</b>						
Futures	\$ 71,959	\$ —	\$ —	\$ —	\$ —	\$ —
Forward rate agreements	31,913	20	—	20	9	17
Swaps	741,732	10,197	3,438	13,635	3,470	6,218
Options purchased	72,412	351	75	426	147	195
Options written	63,679	—	—	—	—	—
	981,695	10,568	3,513	14,081	3,626	6,430
<b>Foreign exchange and gold contracts</b>						
Futures	4,239	—	—	—	—	—
Spot and forwards	286,190	13,053	2,910	15,963	7,579	10,264
Swaps	127,005	6,662	5,670	12,332	8,652	13,664

Options purchased	4,651	375	60	435	158	188
Options written	4,908	—	—	—	—	—
	426,993	20,090	8,640	28,730	16,389	24,116
<b>Other derivative contracts</b>						
Equity	25,852	1,936	1,527	3,463	667	2,986
Credit	120,399	11,067	6,767	17,834	1,058	5,441
Other	7,002	1,149	560	1,709	220	699
	153,253	14,152	8,854	23,006	1,945	9,126
Total derivatives	<u>\$1,561,941</u>	\$44,810	\$21,007	\$65,817	\$21,960	\$39,672
Less: impact of master netting and collateral		24,076	13,220	37,296	12,886 <sup>(1)</sup>	19,114 <sup>(1)</sup>
<b>Total</b>		<u>\$20,734</u>	<u>\$ 7,787</u>	<u>\$28,521</u>	<u>\$ 9,074<sup>(1)</sup></u>	<u>\$20,558<sup>(1)</sup></u>
<b>Total risk weighted assets<sup>(2)</sup></b>				<u>9,653</u>		<u>6,325</u>

(1) Amounts have been reclassified to conform with the current presentation.

(2) Comparative risk weighted assets for 2007 were determined in accordance with Basel I rules.

## Consolidated Financial Statements

### (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, on a portfolio basis, of customer 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)	2008		2008		2007	
	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	\$ 17	\$ 12	\$ 20	\$ 24	\$ 7	\$ 15
Swaps	5,573	5,520	9,345	9,508	3,006	2,828
Options	274	267	350	342	143	143
	5,864	5,799	9,715	9,874	3,156	2,986
<b>Foreign exchange and gold contracts</b>						
Forwards	6,025	5,299	12,424	11,445	7,466	7,013
Swaps	5,144	4,451	4,668	5,061	6,725	5,876
Options	186	168	375	396	158	103
	11,355	9,918	17,467	16,902	14,349	12,992
<b>Other derivative contracts</b>						
Equity	1,273	1,515	1,886	1,356	431	1,653
Credit	4,123	3,921	10,842	8,614	1,046	1,654
Other	462	422	1,118	661	165	237
	5,858	5,858	13,846	10,631	1,642	3,544
Trading derivatives' market valuation	\$ 23,077	\$ 21,575	\$ 41,028	\$ 37,407	\$ 19,147	\$ 19,522

### ALM

<b>Interest rate contracts</b>				
Forward rate agreements	\$ —	\$ 2	\$ 2	\$ —
Swaps	852	1,671	464	447
Options	1	—	4	—
	853	1,673	470	447
<b>Foreign exchange and gold contracts</b>				
Forwards	629	1,404	113	646
Swaps	1,994	1,881	1,927	3,982
Options	—	—	—	—
	2,623	3,285	2,040	4,628
<b>Other derivative contracts</b>				
Equity	50	218	236	26
Credit	225	228	12	66
Other	31	—	55	—
	306	446	303	92
ALM derivatives' market valuation	\$ 3,782	\$ 5,404	\$ 2,813	\$ 5,167
Total derivative instruments before netting	\$ 44,810	\$ 42,811	\$ 21,960	\$ 24,689

Less: impact of master netting and collateral	<b>24,076</b>	<b>24,076</b>	12,886 <sup>(2)</sup>	12,886 <sup>(2)</sup>
<b>Total derivative instruments</b>	<b>\$ 20,734</b>	<b>\$ 18,735</b>	<b>\$ 9,074<sup>(2)</sup></b>	<b>\$ 11,803<sup>(2)</sup></b>

(1) The average fair value of trading derivatives' market valuation for the year ended October 31, 2007 are: favourable \$12,880 and unfavourable \$12,356. Average fair value amounts are based on month-end balances.

(2) Amounts have been reclassified to conform with the current presentation.



Included in the above ALM derivatives' market valuation amounts are derivatives designated in hedging relationships as follows:

As at October 31 (\$ millions)	2008		2007	
	Favourable	Unfavourable	Favourable	Unfavourable
Derivatives designated in fair value hedging relationships	\$ 1,391	\$ 578	\$ 178	\$ 1,013
Derivatives designated in cash flow hedging relationships	\$ 689	\$ 1,561	\$ 1,021	\$ 2,206
Derivatives designated in net investment hedging relationships	\$ 15	\$ 19	\$ —	\$ —
Total derivatives designated in hedging relationships	\$ 2,095	\$ 2,158	\$ 1,199	\$ 3,219

Due to the ineffective portion of designated hedges, the Bank recorded a net gain of nil (2007 — loss of \$11 million) during the year, of which a gain of \$12 million (2007 — loss of \$20 million) related to cash flow hedges. No ineffectiveness was recognized on net investment hedges. In addition to the above, the Bank recorded a cumulative mark-to-market loss of \$162 million during the year relating to interest rate derivatives used for certain asset/liability management purposes that did not qualify for hedge accounting.

## 28 Acquisitions

### (a) Canadian acquisitions

#### Current Year

The Bank completed the acquisition of E\*TRADE Canada on September 22, 2008, through the acquisition of 100% of the outstanding shares for cash consideration of US \$470 million. The Bank has not completed its assessment and valuation of the assets acquired and liabilities assumed for this acquisition. As a result, the amount of the purchase price in excess of the carrying value of the acquired assets and liabilities has not been fully allocated to the acquired assets and liabilities in the Consolidated Balance Sheet.

On October 6, 2008, the Bank announced an agreement to purchase Sun Life Financial Inc.'s ownership stake in CI Financial Income Fund for approximately \$2.3 billion. This sale will result in the Bank acquiring 104,609,895 trust units of CI Financial Income Fund, representing 37.6 per cent of the outstanding units. This transaction is expected to close in the first quarter of 2009 and is subject to the satisfaction or waiver of customary closing conditions, including the receipt of all applicable regulatory approvals. This investment will be accounted for under the equity method of accounting.

#### Prior Year

The Bank completed the acquisition of Dundee Bank of Canada on September 28, 2007, for cash consideration of \$260 million. Total assets were \$2.5 billion at acquisition, comprised primarily of short-term deposits, available-for-sale debt securities and residential mortgages. Goodwill on this investment was not significant.

The Bank completed an 18% equity investment in DundeeWealth Inc. for \$348 million on September 28, 2007, with the right to acquire up to 20%. The investment was a combination of voting and convertible non-voting shares issued out of treasury by DundeeWealth Inc. During the third quarter of 2008, the Bank exercised its right and acquired additional shares, bringing its ownership interest to approximately 19.3%. This investment is accounted for under the equity method of accounting.

### (b) International acquisitions

#### Current Year

During the second half of 2008, the Bank acquired an additional 20% of Scotiabank Peru for approximately \$230 million, which increases the Bank's ownership in Scotiabank Peru from 78% to 98%. This transaction resulted in an increase in goodwill of \$62 million. There is also a reduction in non-controlling interest in subsidiaries of \$164 million.

The Bank completed the acquisition of Chile's Banco del Desarrollo on November 26, 2007, through the acquisition of 99.55% of the outstanding shares. The purchase price was approximately \$1.0 billion Canadian dollar equivalent (CDE), representing a cash payment of \$537 billion Chilean Pesos. Based on acquisition date fair values, the total purchase price has been allocated to CDE \$6.5 billion of tangible assets, primarily loans, acquired, CDE \$6.3 billion of liabilities, primarily deposits, assumed and an estimated value of intangibles and goodwill acquired of CDE \$907 million.

Subsequent to the acquisition, the Bank has combined the operations of Banco del Desarrollo with its existing Scotiabank Sud Americano banking operations in the International Banking segment.

The purchase price allocations for 2008 acquisitions may be refined as the Bank completes its valuation of the assets acquired and liabilities assumed. However, these refinements are not expected to be significant.

#### Prior Year

The Bank completed a 24.99% equity investment in Thanachart Bank for \$225 million on July 19, 2007. This investment is accounted for under the equity method of accounting.

The Bank and one of its subsidiaries acquired 68% of Dehring Bunting & Golding Ltd. (DB&G) on December 13, 2006 for \$76 million. Following a reorganization to combine its similar operations with DB&G, the subsidiary now owns 77% of DB&G. After minority interest in its subsidiary, the Bank has a net interest of 55.28% in DB&G. Goodwill on this investment was not material.

## Consolidated Financial Statements

### 29 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		
	2008	2007	2006
Net income based on Canadian GAAP	<b>\$ 3,140</b>	\$ 4,045	\$ 3,579
Employee future benefits (a)	(24)	(31)	24
Restructuring costs (b)	(8)	—	—
Transfers of loans through securitizations (c)	—	4	(9)
Derivative instruments and hedging activities (d)	201	(30)	(1)
Unrealized gains (losses) on securities reclassified (e)	(63)	(12)	(2)
Conversion of loans into debt securities (e)	(16)	29	9
Available-for-sale securities (e)	(7)	7	8
Computer software (f)	(7)	(11)	(20)
Stock-based compensation (g)	(41)	(17)	(23)
Stock-based compensation-transition adjustment (g)	—	—	(12)
Tax effect of above differences	(20)	32	3
Net income based on U.S. GAAP	<b>\$ 3,155</b>	\$ 4,016	\$ 3,556
Preferred dividends paid	(107)	(51)	(30)
Net income available to common shareholders based on U.S. GAAP	<b>\$ 3,048</b>	\$ 3,965	\$ 3,526
Earnings per common share based on U.S. GAAP (in dollars) <sup>(1)</sup> :			
Basic	<b>\$ 3.09</b>	\$ 4.01	\$ 3.57
Diluted	<b>\$ 3.07</b>	\$ 3.98	\$ 3.52

(1) Earnings per share calculations are based on full dollar and share amounts.

#### (a) Employee future benefits

Commencing fiscal 2007, the Bank prospectively adopted a new U.S. GAAP standard which 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. The new standard also requires, commencing in fiscal 2009, the measurement of defined benefit plan assets and obligations at the fiscal year-end date. Prior to fiscal 2007, U.S. GAAP required the excess of any unfunded accumulated benefit obligation (with certain other adjustments) to be reflected as an additional minimum pension liability in the U.S. GAAP Consolidated Balance Sheet with an offsetting adjustment to intangible assets to the extent of unrecognized prior service costs, with the remainder recorded in other comprehensive income. Upon adoption of the new standard, the minimum pension liability previously recorded under U.S. GAAP was eliminated as part of the transitional adjustment. Although the new U.S. GAAP standard changes the balance sheet presentation of post-retirement benefit plans, the recognition and measurement of pension expense under U.S. GAAP remains unchanged.

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 still 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. 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 adoption of the U.S. GAAP standard as at October 31, 2007 was an increase of \$136 million in other assets, an increase of \$538 million in other liabilities, and a decrease of \$402 million (net of tax is \$262 million) in accumulated other comprehensive income. The adoption of the U.S. GAAP standard had no effect on the Bank's Consolidated Statement of Income under U.S. GAAP for the years ended October 31, 2007 and 2008.

#### **(b) 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.

#### **(c) 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. There will continue to be differences in Canadian and U.S. GAAP income until the deferred gains related to assets securitized prior to July 1, 2001 have all been recognized in Canadian GAAP income.

Prior to the harmonization of Canadian and U.S. GAAP, some transfers of assets did not qualify for sale accounting under U.S. GAAP. These transfers have been accounted for as secured lending arrangements under U.S. GAAP. This results in the assets remaining on the U.S. GAAP Consolidated Balance Sheet and in the net spread being recognized in U.S. GAAP income over the term of the loans rather than immediate recognition of a gain.

#### **(d) Derivative instruments and hedging activities**

As described in Note 1, Canadian GAAP is substantially consistent with U.S. GAAP for the Bank's activities relating to hedging, most embedded derivatives and recognition of inception gains on derivatives valued using unobservable market data. The current year reconciling items between Canadian and U.S. GAAP relate primarily to the bifurcation of credit-related embedded derivatives in synthetic collateralized debt obligation (CDO) structures required under Canadian GAAP.

Prior to November 1, 2006, the Bank, under Canadian GAAP, accounted for derivative instruments held for asset/liability management purposes on an accrual basis if they qualified for hedge accounting. Under U.S. GAAP, hedges were categorized as fair value, cash flow or net investment hedges and followed the current Canadian GAAP accounting described in Note 1 for hedges.

The Bank recorded in its U.S. GAAP consolidated financial statement an after-tax loss of \$5 million in 2006 representing the ineffective portion of designated hedges. On a U.S. GAAP basis, the Bank expected to reclassify an after-tax loss of \$15 million in 2006 from accumulated other comprehensive income to earnings as a result of its cash flow hedges within the next twelve months. For fiscal 2007 and 2008, the ineffective portion of designated hedges and the expected reclassification to earnings as a result of cash flow hedges within the next twelve months are consistent with Canadian GAAP (refer to Notes 27 and 16, respectively). The maximum term of cash flow hedges was less than 10 years for all periods presented.

Prior to fiscal 2007, the unrealized gain or loss arising at the inception of a derivative transaction was recognized in U.S. GAAP income only when the fair value of the derivative was obtained from a quoted market price, supported by comparison to other observable market transactions, or based upon a valuation technique incorporating observable market data. As described in Note 1, effective November 1, 2006, Canadian GAAP is consistent with U.S. GAAP in this respect. On a U.S. GAAP basis, this requirement resulted in an after-tax loss of \$2 million in 2006.

#### **(e) Securities**

As described in Note 1, 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.

Prior to November 1, 2006, securities were classified as either trading or investment under Canadian GAAP. The Bank carried investment securities at cost or amortized cost. On a Canadian GAAP basis, other-than-temporary declines in the value of investment securities were recorded in income based on net realizable value; declines in fair values were generally presumed to be other-than-temporary if conditions indicating impairment had persisted for a longer period of time than under U.S. GAAP. On a U.S. GAAP basis, other-than-temporary declines are recognized in income based on fair values; declines in fair values are generally presumed to be other-than-temporary if they have persisted over a number of quarters.

Prior to November 1, 2006, under U.S. GAAP, unrealized gains and losses on available-for-sale securities, net of related income taxes, were recorded in other comprehensive income until realized, except for the unrealized gains and losses on hedged available-for-sale securities, which were recorded in U.S. GAAP income.

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.

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 investment securities.

As described in Note 1, Canadian GAAP was amended on October 24, 2008 allowing a reclassification of non-derivative financial assets out of the held-for-trading category under rare circumstances. For fiscal 2008, the Bank reclassified specified assets out of trading securities to available-for-sale securities effective August 1, 2008, as permitted under Canadian GAAP. Under U.S. GAAP, this reclassification is effective October 31, 2008.

#### **(f) 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.

#### **(g) 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 pre-tax cumulative effect of adopting the new standard in fiscal 2006 was \$12 million incremental compensation expense. The U.S. GAAP stock-based compensation expense for 2008 and 2007 were quantified using the Black-Scholes option pricing model and the following weighted average assumptions:

As at	October 31, 2008	October 31, 2007
Risk-free interest rate	2.46%	4.59%
Expected dividend yield	3.76%	3.37%
Expected price volatility	38.2%	18.1%
Expected life of option	6.0 years	6.1 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.

## Consolidated Financial Statements

### (h) Liabilities and equity

Under Canadian GAAP, the preferred shares issued by Scotia Mortgage Investment Corporation that were redeemed on October 31, 2007 and the Scotiabank Trust Securities issued by BNS Capital Trust are recorded as capital instrument liabilities. Under U.S. GAAP, these securities with conversion or conditional redemption features are recorded as non-controlling interest in subsidiaries.

### (i) 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 \$6,905 million (2007 — \$11,154 million) and an addition to other liabilities of \$6,905 million (2007 — \$11,154 million).

### (j) Comprehensive income

As described in Note 1, commencing in fiscal 2007, the Bank adopted a new Canadian GAAP standard that requires a statement of comprehensive income to form part of the consolidated financial statements, consistent with U.S. GAAP. Prior to November 1, 2006, the requirement to present a statement of comprehensive income did not exist under Canadian GAAP. The main reconciling items between Canadian GAAP and U.S. GAAP relating to comprehensive income in 2007 primarily result from the reversal of certain hedge adjustments recorded in U.S. GAAP prior to November 1, 2006 and repayments and maturities of debt securities acquired in a loan restructuring prior to May 1, 2003. In addition, the fiscal 2008 reconciling items also include the reclassification of amounts relating to trading and available-for-sale securities and changes in assets and liabilities relating to employee future benefits.

### (k) Non-controlling interest in subsidiaries

Under U.S. GAAP, non-controlling interest in subsidiaries is presented separately.

### (l) Income taxes

On November 1, 2007, the Bank adopted, for U.S. GAAP purposes, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 (FIN 48)*. The Interpretation 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.

FIN 48 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 FIN 48 model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit (UTB).

The adoption of FIN 48 had no material impact on opening retained earnings under U.S. GAAP. The amount of unrecognized tax benefits as of November 1, 2007 was \$418 million. There was a net \$72 million increase during 2008 related to tax positions taken during prior periods. The 2008 balance of \$490 million of unrecognized tax benefits, if recognized, would affect the effective tax rate. It is difficult to project how unrecognized tax benefits will change over the next 12 months. The Bank operates in Canada, the U.S. and other foreign jurisdictions, subject to examination by tax authorities.

## Consolidated statement of comprehensive income (loss)

For the year ended October 31 (\$ millions)	2008			2007	2006
	Canadian GAAP	Adjustments	U.S. GAAP		
Net income	\$ 3,140	\$ 15	\$ 3,155	\$ 4,016	\$3,556

Other comprehensive income (loss), net of



income taxes:

Change in unrealized foreign currency translation gains (losses), net of hedging activities <sup>(1)</sup>	2,368	74	2,442	(2,230)	(360)
Change in unrealized gains (losses) on available-for-sale securities, net of hedging activities <sup>(2)</sup>	(1,588)	(95)	(1,683)	(141)	(18)
Change in gains (losses) on derivative instruments designated as cash flow hedges <sup>(3)</sup>	(519)	(6)	(525)	115	(38)
Change in additional minimum pension liability <sup>(4)</sup>	—	—	—	—	2
Change in pension asset and liability <sup>(5)</sup>	—	35	35	—	—
Total other comprehensive income (loss)	\$ 261	\$ 8	\$ 269	\$(2,256)	\$ (414)
Total comprehensive income (loss)	\$ 3,401	\$ 23	\$ 3,424	\$ 1,760	\$3,142

**Accumulated other comprehensive income (loss)<sup>(6)</sup>**

For the year ended October 31 (\$ millions)	2008			2007	2006
	Canadian GAAP	Adjustments	U.S. GAAP		
Unrealized foreign currency translation gains (losses), net of hedging activities	\$(2,181)	\$ (42)	\$(2,223)	\$(4,665)	\$(2,435)
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	(949)	(33)	(982)	701	842
Derivative instruments designated as cash flow hedges	(466)	1	(465)	60	(55)
Employee future benefits <sup>(7)</sup>	—	(251)	(251)	(286)	(39)
Total accumulated other comprehensive income (loss)	\$(3,596)	\$ (325)	\$(3,921)	\$(4,190)	\$(1,687)

(1) U.S. GAAP amounts are net of income tax benefit of \$159 (2007 — expense of \$427; 2006 — nil).

(2) U.S. GAAP amounts are net of income tax benefit of \$717 (2007 — benefit of \$65; 2006 — benefit of \$4).

(3) U.S. GAAP amounts are net of income tax benefit of \$246 (2007 — expense of \$48; 2006 — benefit of \$20).

(4) The 2006 adjustment is net of income tax expense of \$2.

(5) U.S. GAAP amounts are net of income tax expense of \$12 (not applicable for 2007 and 2006).

(6) All amounts presented are net of income tax.

(7) The 2007 adjustment relates to the application of the new standard on employee future benefits. Refer to the discussion of Employee future benefits in (a) above.



## Condensed consolidated balance sheet

As at October 31 (\$ millions)	2008			2007		
	Canadian GAAP	Adjustments	U.S. GAAP	Canadian GAAP	Adjustments	U.S. GAAP
<b>Assets</b>						
Cash resources	\$ 37,318	\$ —	\$ 37,318	\$ 29,195	\$ —	\$ 29,195
Securities						
Trading	48,292	721 <sup>e</sup>	49,013	59,685	1,042 <sup>e</sup>	60,727
Available-for-sale	38,823	(55) <sup>e</sup>	38,768	28,426	(279) <sup>e</sup>	28,147
Equity accounted investments	920	—	920	724	—	724
Securities purchased under resale agreements	19,451	—	19,451	22,542	—	22,542
Loans	288,680	1,668 <sup>c,d</sup>	290,348	227,147	1,215 <sup>c,d</sup>	228,362
Derivative instruments	44,810	—	44,810	21,960	—	21,960
Other	29,331	9,258 <sup>(1)</sup>	38,589	21,831	13,261 <sup>(5)</sup>	35,092
	<b>\$507,625</b>	<b>\$ 11,592</b>	<b>\$519,217</b>	<b>\$411,510</b>	<b>\$ 15,239</b>	<b>\$426,749</b>
<b>Liabilities and shareholders' equity</b>						
<b>Liabilities</b>						
Deposits	\$346,580	\$ 1,668 <sup>c,d</sup>	\$348,248	\$288,458	\$ 1,224 <sup>c,d</sup>	\$289,682
Derivative instruments	42,811	(9) <sup>d</sup>	42,802	24,689	(5) <sup>d</sup>	24,684
Other	91,238	10,198 <sup>(2)</sup>	101,436	76,852	14,283 <sup>(6)</sup>	91,135
Non-controlling interest in subsidiaries	502	(502) <sup>k</sup>	—	497	(497) <sup>k</sup>	—
Subordinated debentures	4,352	—	4,352	1,710	25 <sup>d</sup>	1,735
Capital instrument liabilities	500	(500) <sup>h</sup>	—	500	(500) <sup>h</sup>	—
	<b>\$485,983</b>	<b>\$ 10,855</b>	<b>\$496,838</b>	<b>\$392,706</b>	<b>\$ 14,530</b>	<b>\$407,236</b>
<b>Non-controlling interest in subsidiaries</b>	<b>\$ —</b>	<b>\$ 1,002<sup>h,k</sup></b>	<b>\$ 1,002</b>	<b>\$ —</b>	<b>\$ 997<sup>h,k</sup></b>	<b>\$ 997</b>
<b>Shareholders' equity</b>						
Capital stock						
Preferred shares	\$ 2,860	\$ —	\$ 2,860	\$ 1,635	\$ —	\$ 1,635
Common shares and contributed surplus	3,829	—	3,829	3,566	—	3,566
Retained earnings	18,549	60 <sup>(3)</sup>	18,609	17,460	45 <sup>(7)</sup>	17,505
Accumulated other comprehensive income (loss)	(3,596)	(325) <sup>(4)</sup>	(3,921)	(3,857)	(333) <sup>(8)</sup>	(4,190)
	<b>\$ 21,642</b>	<b>\$ (265)</b>	<b>\$ 21,377</b>	<b>\$ 18,804</b>	<b>\$ (288)</b>	<b>\$ 18,516</b>
	<b>\$507,625</b>	<b>\$ 11,592</b>	<b>\$519,217</b>	<b>\$411,510</b>	<b>\$ 15,239</b>	<b>\$426,749</b>

Note references refer to GAAP differences described above.

- (1) Refer to a, b, c, d, e, f, i.
- (2) Refer to a, c, e, g, i.
- (3) Refer to a, b, c, d, e, f, g.
- (4) Refer to a, d, e, j.
- (5) Refer to a, b, c, d, e, f, i.
- (6) Refer to a, b, c, e, g, i.
- (7) Refer to a, b, c, d, e, f, g.
- (8) Refer to a, d, e, j.

## Future accounting changes

### Framework on fair value measurement

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. The standard establishes a framework for measuring fair value and expands disclosures surrounding fair value measurement. The requirements of this standard will be effective for the Bank beginning November 1, 2008 except for certain non-financial assets and liabilities. The Bank is currently assessing the impact of this standard.

### Fair value option for financial assets and liabilities

In February 2007, the FASB issued Statement No. 159, *Fair Value Option for Financial Assets and Liabilities*. This standard allows an entity the option to measure certain financial assets and liabilities at fair value. Changes in fair value are recognized in earnings. The requirements of this standard will be effective for the Bank beginning November 1, 2008. This new standard is expected to eliminate a measurement difference between Canadian and U.S. GAAP.

### Business combinations and Non-controlling interest

In December 2007, the FASB issued Statement No. 141 (revised), *Business Combinations* and Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements*. These standards will require most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination to be recorded at full fair value; related acquisition and restructuring costs to be expensed instead of being capitalized as part of the purchase consideration and require non-controlling interests to be reported as a separate component of equity. The requirements of these standards will be effective for the Bank for U.S. GAAP purposes for business combinations occurring on or after November 1, 2009.

### Derivative instruments and Hedging activities

In March 2008, FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*. This standard requires enhanced disclosures for derivatives and hedged items and their effects on an entity's financial position, results of operations and cash flows. The requirements of this standard will be effective for the Bank for fiscal 2010.

<DOCUMENT>  
<TYPE> EX-99.4  
<FILENAME> o42611exv99w4.htm  
<DESCRIPTION> EX 4 REPORTS -- INTERNAL CONTROL OVER FINANCIAL REPORTING  
<TEXT>

## 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, 2008, 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 the report below.

Rick Waugh  
President and Chief Executive Officer

Luc Vanneste  
Executive Vice-President and  
Chief Financial Officer

Toronto, Canada

December 2, 2008

## 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 (the "Bank's") internal control over financial reporting as of October 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank'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'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 maintained, in all material respects, effective internal control over financial reporting as of October 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have conducted our audits on the consolidated balance sheets of the Bank as at October 31, 2008 and 2007 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, 2008 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Our report dated December 2, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP  
Chartered Accountants, Licensed Public Accountants  
Toronto, Canada,

December 2, 2008

<DOCUMENT>  
<TYPE> EX-99.5  
<FILENAME> o42611exv99w5.htm  
<DESCRIPTION> EX 5 CORPORATE GOVERNANCE  
<TEXT>

## **CORPORATE GOVERNANCE**

### **Corporate Governance Regulation**

The Board of Directors and management believe that a strong, effective, independent Board plays a crucial role in 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.

The Bank's corporate governance practices are regulated on a number of levels and by many different parties. Our corporate governance practices meet or exceed the standards set out in the guidelines and rules of the Bank Act and those of the Canadian Securities Administrators ("CSA"), which include Multilateral Instrument 52-110, Multilateral Instrument 52-109, National Policy 58-201 and National Instrument 58-101. Our practices also comply with applicable requirements of the New York Stock Exchange ("NYSE") and the Sarbanes-Oxley Act of 2002 ("SOX"), including applicable rules of the U.S. Securities and Exchange Commission ("SEC"). The Bank is not required to comply with most of the NYSE corporate governance rules (the "NYSE Corporate Governance Rules"). However, except as summarized in the Corporate Governance section of the Bank's website at [www.scotiabank.com](http://www.scotiabank.com), the Bank's corporate governance practices do not differ significantly from the NYSE Corporate Governance Rules.

The Corporate Governance Policies and the committee charters are available in the Corporate Governance section of the Bank's website at [www.scotiabank.com](http://www.scotiabank.com) and in print to any shareholder who requests a copy from the Secretary of the Bank. 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 "B" thereto.

### **Director Independence**

The Bank is committed to complying with all applicable laws, rules and regulations related to the status of its 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 reflect the applicable independence requirements set out by the CSA and the NYSE. The Board's 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. The Board annually reviews the independence of the Directors against the Independence Standards. In assessing Director independence, the Board considers all relevant facts and circumstances, including the relationships of the non-management Directors, their spouses, children, principal business affiliations and others to the Bank. To assist the Board with its determination, all Directors annually complete a detailed questionnaire about their business relationships and shareholdings. Also, each year, all Directors must certify their compliance with the Bank's Guidelines for Business Conduct, which include the requirement for Directors to declare any material interest in matters coming before the Board.

---

Fifteen of sixteen, or 93.8%, of the Bank's current Directors are independent, as defined under the Independence Standards, including the Chairman of the Board, Mr. Arthur R.A. Scace.

The following Directors are independent: Ronald A. Brenneman, C.J. Chen, N. Ashleigh Everett, John C. Kerr, The Honourable Michael J.L. Kirby, Laurent Lemaire, John T. Mayberry, Thomas C. O'Neill, Elizabeth Parr-Johnston, Alexis E. Rovzar, Indira V. Samarasekera, Arthur R.A. Scace, Allan C. Shaw, Paul D. Sobey, and Barbara S. Thomas.

As of December 2, 2008, Richard E. Waugh was the only Director determined by the Board of Directors to be non-independent due to his position as President and Chief Executive Officer. Mr. Waugh is also affiliated under the Bank Act (Canada) due to his management position.

### **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.

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.

<DOCUMENT>  
<TYPE> EX-99.6  
<FILENAME> o42611exv99w6.htm  
<DESCRIPTION> EX 6 AUDITORS' CONSENT  
<TEXT>



**KPMG LLP**  
**Chartered Accountants**  
Suite 3300 Commerce Court West  
PO Box 31 Stn Commerce Court  
Toronto ON M5L 1B2  
Canada

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **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 audit report dated December 2, 2008 on the Consolidated Balance Sheets of the Bank as at October 31, 2008 and 2007, 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, 2008;
- (ii) our Comments by Auditors for US Readers on Canada-US Reporting Differences, dated December 2, 2008; and
- (iii) our Report of Independent Registered Public Accounting Firm dated December 2, 2008 on the Bank's internal control over financial reporting as of October 31, 2008

each of which is contained in this annual report on Form 40-F of the Bank for the fiscal year ended October 31, 2008.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

December 5, 2008

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

<DOCUMENT>  
<TYPE> EX-99.7  
<FILENAME> o42611exv99w7.htm  
<DESCRIPTION> EX 7 COMMENTS BY AUDITORS  
<TEXT>



**KPMG LLP**  
**Chartered Accountants**  
Suite 3300 Commerce Court West  
PO Box 31 Stn Commerce Court  
Toronto ON M5L 1B2  
Canada

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **COMMENTS BY AUDITORS FOR US READERS ON CANADA-US REPORTING DIFFERENCES**

To the Board of Directors of The Bank of Nova Scotia (the "Bank")

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) that refers to the audit report on the Bank's internal control over financial reporting. Our report to the shareholders dated December 2, 2008 is expressed in accordance with Canadian reporting standards, which do not require a reference to the audit report on the Bank's internal control over financial reporting in the financial statement auditors' report.

In addition, in the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Bank's financial statements, such as the changes in accounting for Financial Instruments in 2007 and 2008 which are described in Note 1 to the consolidated financial statements as at October 31, 2008 and for of the year then ended, which were due to the adoption of new Financial Instrument standards under Canadian generally accepted accounting principles. Our report to the shareholders dated December 2, 2008 is expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

/s/ KPMG LLP  
Chartered Accountants, Licensed Public Accountants  
  
Toronto, Canada  
December 2, 2008

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

<DOCUMENT>  
<TYPE> EX-99.8  
<FILENAME> o42611exv99w8.htm  
<DESCRIPTION> EX 8 CERTIFICATIONS (S.302)  
<TEXT>

**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 8, 2008

/s/ R. 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 8, 2008

/s/ Luc Vanneste

---

Executive Vice-President and  
Chief Financial Officer

<DOCUMENT>  
<TYPE> EX-99.9  
<FILENAME> o42611exv99w9.htm  
<DESCRIPTION> EX 9 CERTIFICATIONS (S.906)  
<TEXT>

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, 2008 (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 8, 2008

/s/ R. 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, 2008 (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 8, 2008

/s/ Luc Vanneste

\_\_\_\_\_  
Luc A. Vanneste  
Executive Vice President and  
Chief Financial Officer