

## Scotiabank reports strong third quarter results

**Third quarter highlights** compared to the same period a year ago:

- Net income of \$733 million, compared to \$626 million, up 17.2%
- Earnings per share (diluted) of \$0.71, compared to \$0.60, an 18.3% rise
- Return on equity of 19.4% versus 17.7%
- Tier 1 capital ratio of 11.3%, compared to 10.6%

**Toronto, August 31, 2004** –

Scotiabank reported strong earnings in the third quarter of 2004 with net income of \$733 million, an increase of 17.2% from the third quarter of 2003, spurred by solid contributions from the Bank's three major business lines. Earnings per share (diluted) were \$0.71, up 18.3% from \$0.60 in the third quarter of 2003.

"Scotiabank continued to benefit this quarter from its strategy of diversifying across three strong growth platforms," said Rick Waugh, President and CEO. "As well, credit quality continued to improve. The provision for credit losses is at its lowest quarterly level in more than five years.

"In Canada, exceptional growth in mortgages and strong gains in other retail lending assets have allowed us to earn through tighter margins in the current low interest rate environment.

"Our international division continues to post strong results in all regions, driven by business growth

and acquisitions in Latin America and the Caribbean, and lower credit losses in Asia.

"At Scotia Capital, an improvement in credit quality and a focus on cross-selling of non-credit products resulted in a year-over-year increase in net income and an improvement in ROE compared to recent years.

"The Bank's capital position remains very strong, with a tangible common equity ratio that is the highest of the major Canadian banks. This capital strength gives us tremendous flexibility and will enable us to continue to increase returns to our shareholders, just as we've done over the past four years in doubling our dividend."

For the nine-month period ended July 31, 2004, net income was a record \$2,223 million, compared to \$1,817 million in the same period last year, an increase of 22.4%. Earnings per share (diluted) were \$2.13 versus \$1.71, up 24.6%, and return on equity was 20.2% compared to 17.2%.

### Year-to-date performance versus our 2004 targets was as follows:

1. TARGET: Earn a return on equity (ROE) of 16% to 19%. In the first nine months, Scotiabank earned a ROE of 20.2%.
2. TARGET: Generate growth in earnings per common share of 10% to 15% per year. Our year-over-year growth in earnings per share was 24.6%.
3. TARGET: Maintain a productivity ratio of less than 58%. Scotiabank's performance was 55.3%, one of the best in the financial sector.
4. TARGET: Maintain strong capital ratios. At 11.3%, Scotiabank's Tier 1 capital ratio remains among the highest of the Canadian banks and strong by international standards.

# Financial Highlights

	As at and for the three months ended			For the nine months ended	
<i>(Unaudited)</i>	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
<b>Operating results</b> (\$ millions)					
Net interest income (TEB <sup>(1)</sup> )	1,534	1,558	1,630	4,640	4,844
Total revenue (TEB <sup>(1)</sup> )	2,569	2,807	2,639	7,964	7,852
Provision for credit losses	50	130	200	350	773
Non-interest expenses	1,472	1,523	1,453	4,401	4,237
Provision for income taxes (TEB <sup>(1)</sup> )	264	313	291	828	812
Net income	733	786	626	2,223	1,817
Net income available to common shareholders	727	780	616	2,191	1,756
<b>Operating performance</b>					
Basic earnings per share <sup>(2)</sup> (\$)	0.72	0.77	0.61	2.17	1.74
Diluted earnings per share <sup>(2)</sup> (\$)	0.71	0.75	0.60	2.13	1.71
Return on equity (%)	19.4	21.8	17.7	20.2	17.2
Productivity ratio (%) (TEB <sup>(1)</sup> )	57.3	54.3	55.1	55.3	54.0
Net interest margin on total average assets (%) (TEB <sup>(1)</sup> )	2.15	2.21	2.28	2.18	2.23
<b>Balance sheet information</b> (\$ millions)					
Cash and securities	85,030	81,273	78,886		
Loans and acceptances	182,248	179,887	179,577		
Total assets	286,890	283,634	282,160		
Deposits	201,133	197,641	190,284		
Preferred shares	550	550	800		
Common shareholders' equity	14,981	14,857	13,933		
Assets under administration	162,121	162,274	161,165		
Assets under management	21,151	20,929	20,204		
<b>Capital measures</b>					
Tier 1 capital ratio (%)	11.3	11.2	10.6		
Total capital ratio (%)	13.7	13.6	13.1		
Tangible common equity to risk-weighted assets <sup>(3)</sup> (%)	9.5	9.4	8.7		
Risk-weighted assets (\$ millions)	155,516	155,679	157,191		
<b>Credit quality</b>					
Net impaired loans after general allowance <sup>(4)</sup> (\$ millions)	(227)	(104)	317		
General allowance for credit losses (\$ millions)	1,425	1,475	1,475		
Net impaired loans as a % of loans and acceptances <sup>(4)</sup>	(0.12)	(0.06)	0.18		
Specific provision for credit losses as a % of average loans and acceptances	0.22	0.30	0.43	0.30	0.55
<b>Common share information</b>					
Share price <sup>(2)</sup> (\$)					
High	36.88	37.45	32.19	37.45	32.19
Low	32.90	33.38	27.52	31.08	22.28
Close	36.60	35.15	30.24		
Shares outstanding <sup>(2)</sup> (millions)					
Average (basic)	1,008	1,011	1,010	1,010	1,009
Average (diluted)	1,024	1,028	1,027	1,026	1,025
End of period	1,008	1,009	1,012		
Dividends per share <sup>(2)</sup> (\$)	0.30	0.25	0.22	0.80	0.62
Dividend yield (%)	3.4	2.8	2.9	3.1	3.0
Dividend payout ratio <sup>(5)</sup> (%)	41.6	32.4	36.1	36.9	35.7
Market capitalization (\$ millions)	36,899	35,452	30,605		
Book value per common share <sup>(2)</sup> (\$)	14.86	14.73	13.76		
Market value to book value multiple	2.5	2.4	2.2		
Price to earnings multiple (trailing 4 quarters)	13.0	13.0	13.2		
<b>Other information</b>					
Employees	44,253	44,294	43,869		
Branches and offices	1,865	1,869	1,844		

Certain comparative amounts in this quarterly report have been reclassified to conform with current period presentation.

(1) The adjustment that changes GAAP measures to taxable equivalent basis (TEB) measures is discussed in footnotes (2) and (3) on page 10.

(2) Amounts have been retroactively adjusted to reflect the stock dividend paid April 28, 2004, of one common share for each issued and outstanding common share. The stock dividend had the same effect as a two-for-one stock split.

(3) Represents common shareholders' equity and non-controlling interest in the common equity of subsidiaries, less goodwill and intangible assets, as a percentage of risk-weighted assets.

(4) Net impaired loans are impaired loans less the allowance for credit losses, including the general allowance.

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

# Message to Stakeholders

Across the Scotiabank Group, our strategy is to build stronger relationships with existing customers, acquire new customers, effectively allocate capital and human resources, and leverage our core strengths – customer satisfaction, people, diversification, expense and risk management, and execution. Overall, we believe that we continue to grow, largely because of diversified and sustainable earnings generated by our three strong growth platforms – Domestic Banking, Scotia Capital and International Banking.

## **Domestic Banking**

Our focus in Domestic Banking is to build volume and acquire customers by leveraging the winning products and services we have in place. We believe that our Domestic platform – our strength in sales and service, and our leading customer and employee satisfaction – gives us the capacity to do this. In recent quarters, we had solid gains in market share, with particular success in residential mortgages and core deposits. Also, in an independent survey, we led Canada's major banks for job satisfaction among account managers.

## **Scotia Capital**

In Scotia Capital, we have in place processes and disciplines to continue to effectively manage our credit quality. This has contributed in part to the recent decline in specific provisions.

We are also looking at new areas for growth, especially non-lending sources of revenue, and places where we can begin to offer certain products on a global basis. This allows us, in both Canada and the U.S., to leverage our long-established client relationships, which has led to much stronger returns on equity compared to previous years.

## **International Banking**

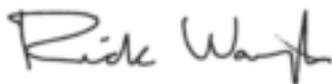
In International Banking, we have confidence that there are significant growth opportunities in many markets, due to the combination of under-utilization of financial services, generally higher economic growth rates and young populations.

Our primary focus is on Mexico – where we are increasing loans and deposits – and parts of the Caribbean and Central America. We also believe India, China and Malaysia offer good growth prospects over the long term.

## **Economic outlook**

This year's improved international economic performance and rising commodity prices have bolstered Canadian prospects. Looking ahead to 2005, worldwide growth is expected to moderate to a more sustainable pace, with emerging inflationary pressures and a weaker U.S. dollar contributing to a gradual rise in interest rates.

The prospect of continued economic growth, together with the diversification and strength of our core businesses, will help the Scotiabank Group maintain its record of strong results for all our major stakeholders – our shareholders, customers, employees and the communities we serve.



Richard E. Waugh  
President and Chief Executive Officer

# Achievements

## Domestic Banking

- For the second consecutive year, Scotiabank led Canada's major banks for job satisfaction among retail financial advisors, based on a recent report card issued by *Investment Executive*, Canada's national newspaper for financial service industry professionals. We increased our rating in 10 categories and were rated first in 11 of 24 categories, including branch managers and strategic focus.
- Our competitive products and excellent customer service continue to generate market share gains. In residential mortgages, a key product, our market share rose significantly over last year, leading all major competitors. As well, we have increased market share in personal chequing and savings accounts, based on the strength of the *Money Master*<sup>®</sup> High Interest Savings Account. Since its introduction almost three years ago, our market share has risen substantially.
- Scotiabank launched an innovative new VISA loyalty program, the *ScotiaStar Network*<sup>™</sup>. The program can be added to any VISA card, and cardholders can earn rebates of up to 10% at participating retailers. Still growing, the program is already accepted at more than 200 retailers with over 1,500 locations across the country.

## International Banking

- In the Caribbean and Central America (C&CA), customer usage of self-service channels continues to increase, with more than 80,000 new active users year to date, as we launched Internet banking in El Salvador and U.S. Virgin Islands. Our four contact centres in the C&CA received more than 425,000 calls handled by our automated Interactive Voice Response technology and 320,000 calls that were handled by live agents. The contact centres also completed more than 32,000 outbound sales-related calls this quarter.
- The small business re-engineering process that was initiated in 2003 was expanded to a further eight countries in the C&CA region, bringing the total to 13. The credit application and adjudication process has been significantly streamlined, and customer response has been very positive. To date, one third of all C&CA small business clients have benefited from the new process.
- Scotiabank Inverlat continued to cement its leadership in Mexican capital markets. It has acted as lead arranger

in several syndicated loan transactions, including a US\$2.4 billion syndication for Telmex, the largest loan syndication in Latin American history. Inverlat retained its first-place ranking in Mexican commercial paper and short-term debt issuance, and was awarded a prestigious mandate to lead Pemex's first commercial paper issue in Mexico.

## Scotia Capital

- Scotia Capital won several awards this quarter, including: Best Investment Bank in Canada (*Global Finance* magazine), Best Debt House in Canada (*Euromoney* magazine), and Best Corporate and Institutional Internet Bank in Canada, for a second year in a row (*Global Finance* magazine). The awards recognize our leadership in the industry, great team of people and our clear strategy to be the best at helping clients achieve financial success by providing relevant solutions to their unique needs.
- Scotia Capital acted as the exclusive financial advisor to Allstream Inc. on its \$1.7 billion sale to Manitoba Telecom Services Inc.
- In a continuing relationship with the Yellow Pages Income Fund, Scotia Capital acted as the co-lead agent and co-bookrunner for the inaugural \$750 million medium-term note issue in April. More recently, we were awarded the co-lead manager and co-bookrunner roles in their treasury offering of \$743 million of trust units.

## Employees and Human Resources

- Each June, the Bank surveys employees' satisfaction with their working environment. This year's results point to an increasingly satisfied team of employees, which we believe is the key to satisfied customers. Overall employee satisfaction was 82%, an increase of two points over last year. Across the Scotiabank Group, the Bank had a very high participation rate, with 87% of employees giving their input from virtually every country in which we do business, including – for the first time – those in Asia-Pacific.

## Community involvement

- Participation doubled, and funds raised increased by more than 75% to \$1.2 million in the second annual Rick Hansen Wheels in Motion, presented by Scotiabank in June. Some 28,000 people wheeled, biked, skated, ran and walked the 10 km course to aid people with spinal cord injuries.

# Management's Discussion and Analysis

## Group Financial Performance

In the third quarter, the Bank reported good results in all its main businesses, a continuation of the trend in the first half of the year. Also contributing were lower provisions for credit losses in the third quarter, which were at their lowest quarterly level in over five years. As a result, net income for the nine-month period was a record, with the Bank earning through the adverse effect of the appreciation of the Canadian dollar.

### Total revenue

Total revenue (on a taxable equivalent basis) for the third quarter was \$2,569 million, compared to \$2,639 million in the same period last year, primarily due to lower Canadian dollar net interest income and the negative effect of foreign currency translation.

Compared to the preceding quarter, total revenue fell \$238 million, mainly as higher gains were realized last quarter on the sale of investment securities, including a \$125 million gain on the sale of a portion of the Bank's investment holding in Shinsei Bank in Japan.

For the nine-month period ended July 31, 2004, total revenue grew to \$7,964 million, up \$112 million from the same period last year, notwithstanding a significant \$487 million reduction caused by foreign currency translation. The largest contributor to the growth was higher gains on the sale of investment securities in 2004.

### Net interest income

Net interest income (on a taxable equivalent basis) for the third quarter was \$1,534 million, down \$96 million or 6% from the same period of the prior year. Excluding the effect of foreign currency translation, net interest income fell by \$58 million or 4%. Compared to the prior quarter, net interest income decreased \$24 million.

Canadian currency net interest income was \$73 million below the level of the same quarter last year. This was caused by lower net interest income in trading activities, higher outstanding securitization volumes and a decline in the net interest margin caused by the low interest rate environment. Partly offsetting this was exceptional growth in mortgages, accompanied by solid gains in other retail lending assets. Compared to the prior quarter, Canadian currency net interest income was unchanged.

The adoption of a new Canadian accounting standard for hedging in fiscal 2004 resulted in an increase in Canadian currency net interest income in the third quarter, which was largely offset by a related reduction in foreign currency net interest income.

Foreign currency net interest income was below the level earned in the same quarter a year ago but, excluding the effect of foreign currency translation, income grew

\$15 million. This increase arose from stronger U.S. funding spreads and higher income in the Caribbean, which was largely mitigated by lower demand and more selective lending in corporate banking. Compared to the second quarter, foreign currency net interest income declined \$24 million, mainly from a quarter-over-quarter change in the amounts recorded under the new hedging accounting standard.

In the third quarter, the Bank's total interest margin was 2.15%, a decrease of 13 basis points from last year, and 6 basis points below last quarter.

For the nine-month period, net interest income (on a taxable equivalent basis) was \$4,640 million, down \$204 million or 4% from last year. Excluding the effect of foreign currency translation, net interest income rose \$75 million or 2%, notwithstanding a compression in the Canadian dollar interest margin.

### Other income

Other income was \$1,035 million in the third quarter, an increase of \$26 million or 3% from the same period of 2003. Excluding the effect of foreign currency translation, other income rose \$55 million or 5%. This improvement resulted largely from higher gains realized on investment securities, strong merger and acquisition fees, and a rise in deposit and payment services revenues primarily in Canadian retail operations. These increases were partially offset by reduced levels of underwriting income, reflecting the recent softening in new issue activity, as well as decreases in securitization and credit fees. Compared to last quarter, other income fell 17%, due mainly to reduced gains on investment securities. As well, there were lower securitization revenues, reflecting the interest rate environment, and retail brokerage fees fell because of a decline in customer activity.

For the nine-month period, other income rose to \$3,324 million, up \$316 million from the same period last year. Excluding the effect of foreign currency translation, other income climbed \$524 million or 17%, due mainly to higher gains on investment securities, accompanied by solid growth in deposit and payment services, and retail brokerage revenues. However, credit fees fell as a result of lower customer demand.

### Non-interest expenses and productivity

In the third quarter of 2004, non-interest expenses were \$1,472 million, an increase of \$19 million or 1% compared to the same period of 2003. Excluding the effect of foreign currency translation, expenses rose \$49 million, or 3%. This modest growth resulted from higher pension costs and other general business expenditures.

Compared to the prior quarter, expenses fell \$51 million or 3%, mainly due to lower performance-based compen-

sation in line with reduced brokerage and trading revenues, and good expense control.

For the nine-month period, non-interest expenses rose \$164 million or 4%. Excluding the effect of foreign currency translation, non-interest expenses increased by \$355 million or 8%, due to higher stock-based and performance-based compensation, and staff benefits, as well as growth in mortgage appraisal and acquisition fees.

The Bank's productivity ratio – a measure of the efficiency with which revenues are generated – was 57.3% this quarter, compared to 55.1% in the same period last year and 54.3% last quarter. On a year-to-date basis, the productivity ratio was 55.3%, versus 54.0% in the same period a year ago.

### Taxes

The Bank's effective tax rate for the third quarter was 20.0%, versus 23.7% in the same period a year ago and 22.7% last quarter. These decreases mainly arose from higher tax savings in the Bank's foreign operations. For the nine-month period, the effective tax rate was 20.8%, compared to 22.9% in 2003.

### Non-controlling interest

The deduction for the non-controlling interest in the Bank's net income was \$50 million for the quarter, down \$19 million from the same period a year ago, and \$5 million below last quarter. The year-over-year reduction was mainly due to decreases in the non-controlling interest in Scotiabank Inverlat, as the Bank increased its ownership to 97% earlier in 2004.

### Preferred dividends

The preferred dividends paid, which are a deduction to determine the Bank's net income available to common shareholders, were \$6 million for the third quarter, down from \$10 million in the same period last year, but unchanged from the previous quarter. For the nine-month period, preferred dividends paid were \$32 million, a reduction from \$61 million in the same period of the prior year. These decreases resulted from the redemption of the Series 9 Non-cumulative Preferred Shares on April 28, 2003, and the Series 11 Non-cumulative Preferred Shares on January 28, 2004.

### Risk management

The Bank's key risk management policies and practices are unchanged from those outlined on pages 54 to 63 of the 2003 Annual Report.

### Credit risk

Credit quality continued to improve in the quarter. The provision for credit losses was \$50 million in the third quarter, comprised of \$100 million in specific provisions partly offset by a \$50 million reduction in the general

allowance for credit losses. This quarter's specific provisions were a significant improvement over the \$200 million in the same quarter last year, and \$130 million last quarter.

In Domestic Banking, credit quality in the retail portfolios remained strong, with low credit losses and stable delinquency ratios. Specific provisions against the commercial portfolio were relatively modest and have declined over the last two quarters.

Specific provisions for credit losses in International Banking were only \$2 million this quarter, due to higher provision reversals and recoveries.

In Scotia Capital, specific provisions declined \$104 million from the same quarter last year, and were down slightly from the previous quarter. Stronger economic conditions, increased corporate profitability and our focus on managing this portfolio have resulted in continued improvement in credit quality over the past year.

The \$50 million reduction in the general allowance for credit losses during the quarter resulted from the sustained improvement in credit conditions and falling loan volumes in Scotia Capital. If recent trends in credit quality continue, there may be further reductions in the general allowance.

Total net impaired loans, after deducting the allowance for credit losses (both specific and general), were negative \$227 million as at July 31, 2004, a substantial improvement of \$544 million over the same period a year ago, and \$123 million from the preceding quarter.

### Market risk

Value at Risk (VaR) is a key measure of market risk in the Bank's trading activities. In the third quarter of 2004, the average one-day VaR rose to \$10.2 million, from \$9.0 million in the same quarter of last year. This was primarily due to an increase in interest rate risk, which was partially offset by a reduction in equity and foreign exchange risk. Compared to last quarter, most of the change also arose in the interest rate category. These VaR levels represent a moderate level of market risk, given the size of the Bank.

Risk factor (\$ millions)	Average for the three months ended		
	July 31 2004	April 30 2004	July 31 2003
Interest rate	\$ 10.1	\$ 7.0	\$ 5.2
Equities	3.4	4.5	6.5
Foreign exchange	1.3	1.2	2.1
Commodities	0.7	1.0	0.8
Diversification	(5.3)	(5.5)	(5.6)
All-Bank VaR	\$ 10.2	\$ 8.2	\$ 9.0

Trading revenue was positive on more than 95% of the days in the quarter, compared to 87% last quarter. No single day's loss exceeded the one-day VaR.

## Liquidity risk

The Bank manages liquidity to ensure it has the ability to generate or obtain funds to meet current and future financial obligations in a cost-effective manner. This involves maintaining sufficient liquid assets, other cash resources and diverse sources of funding.

Scotiabank obtains funding through a broad range of sources, including retail and commercial deposits, wholesale funding and capital. The Bank also raises term funding through asset securitizations of mortgages and personal loans.

The Bank maintains large holdings of liquid assets to support its operations. As at July 31, 2004, liquid assets were \$77 billion (April 30, 2004 – \$73 billion), representing 27% of total assets (April 30, 2004 – 26%).

In the course of its day-to-day activities, the Bank pledges assets to secure an obligation, participate in a clearing or settlement system, or to operate in a foreign jurisdiction. As at July 31, 2004, total assets pledged or sold under repurchase agreements were \$40 billion, unchanged from last quarter. The majority of these assets relate to repurchase agreements, as well as pledges for securities borrowing and lending activities.

## Balance sheet

The Bank's total assets were \$287 billion as at July 31, 2004, an increase of \$5 billion or 2% from July 31, 2003, and up \$3 billion from last quarter.

The year-over-year growth in assets included strong gains in retail lending, with residential mortgages up \$8 billion, and other personal loans and credit cards rising \$4 billion, as well as higher trading securities of \$6 billion. These increases were partially offset by \$6 billion from the effect of foreign currency translation, as well as a \$5 billion reduction in corporate lending.

Compared to July 31, 2003, total liabilities increased \$4 billion. In Canada, there was strong growth of \$3 billion in current accounts, along with continued expansion of personal deposits, especially in the Bank's popular Money Master accounts, which increased \$4 billion during this period. This growth was partially offset by the effect of foreign currency translation, as well as decreases in trading derivatives and securities sold under repurchase agreements.

Common shareholders' equity was \$15 billion as at July 31, 2004, an increase of \$1 billion over the past year. This growth arose mainly from strong net income less the effect of foreign currency translation recorded in shareholders' equity.

In the nine-month period since the Bank's October 31, 2003 year end, total assets were up \$1 billion. This increase was largely driven by growth in retail lending and trading

securities, partially offset by declines in U.S. and European corporate loans, as well as lower trading derivatives.

As at July 31, 2004, the surplus of the market value over book value of the Bank's investment securities was \$887 million, compared to \$1,007 million last quarter end. This decrease arose mainly from a lower market value for the Bank's holdings in Shinsei Bank in Japan, along with the realization of gains on the sale of investment securities in the quarter.

## Capital management

The Bank has a very strong level of capital, resulting from consistent increases over the past several years. As at July 31, 2004, the Bank's Tier 1 ratio was 11.3%, a significant improvement of 70 basis points over the same quarter last year, and up 10 basis points from the prior quarter. These improvements arose from strong earnings and modest decreases in risk-weighted assets.

The Bank's tangible common equity ratio (which represents common equity less goodwill and intangibles as a percentage of risk-weighted assets) was 9.5% at the end of the third quarter, up 80 basis points from last year, and 10 basis points higher than last quarter. This ratio remains higher than that of the other major Canadian banks.

## Common dividend

The Bank paid a dividend of 30 cents per common share in the third quarter, which was 36% higher than the same period a year ago and 20% above last quarter. This reflects the Bank's ongoing commitment to dividend growth and increasing shareholder returns.

At its meeting on August 31, 2004, the Board of Directors approved a quarterly dividend of 30 cents per common share, payable on October 27, 2004, to shareholders of record on October 5, 2004.

## Outlook

We remain confident that our three diversified business lines will enable us to deliver solid earnings in a moderate economic growth environment. However, we face continuing challenges from the appreciation of the Canadian dollar, compression in interest margins, and lack of corporate loan demand in the U.S. As well, the large securities gains realized to date in 2004 will not be sustainable at these levels. That being said, with record nine-month earnings to date, we fully expect to meet our key targets that we have set for 2004.

# Business Line Review

## Domestic Banking

<i>(Unaudited)</i> (\$ millions) <i>(Taxable equivalent basis)</i> <sup>(1)</sup>	For the three months ended			For the nine months ended	
	<b>July 31 2004</b>	April 30 2004	July 31 2003	<b>July 31 2004</b>	July 31 2003
<b>Business line income</b>					
Net interest income	\$ 886	\$ 901	\$ 866	\$ 2,664	\$ 2,596
Provision for credit losses	(70)	(81)	(71)	(243)	(224)
Other income	414	424	399	1,255	1,122
Non-interest expenses	(805)	(803)	(778)	(2,372)	(2,232)
Provision for income taxes	(136)	(148)	(144)	(423)	(432)
<b>Net income</b>	<b>\$ 289</b>	<b>\$ 293</b>	<b>\$ 272</b>	<b>\$ 881</b>	<b>\$ 830</b>
<b>Other measures</b>					
Return on equity <sup>(2)</sup>	<b>31.4%</b>	32.7%	30.8%	<b>32.1%</b>	31.5%
Average assets (\$ billions)	<b>\$ 113</b>	\$ 109	\$ 102	<b>\$ 110</b>	\$ 100

(1) Refer to footnote (2) on page 10.

(2) Refer to footnote (4) on page 10.

Domestic Banking, which includes Wealth Management, reported net income of \$289 million in the third quarter, an increase of \$17 million or 6% over last year. Domestic Banking accounted for 39% of the Bank's total net income this quarter, with an ROE of 31%. Quarter over quarter, net income fell 1%.

For the nine-month period, net income grew \$51 million or 6% to \$881 million from the same period last year.

Net interest income rose modestly by 2% this quarter versus the same period last year, as strong ongoing increases in retail lending, core retail deposits and business deposits were mostly offset by a lower margin. Asset growth was led by residential mortgages, where balances grew by \$9.6 billion from a year ago, including a record \$3.6 billion this quarter.

Other income was up \$15 million or 4% from the same quarter a year ago, with broad-based growth, including

higher transaction-based fees, mutual fund fees and foreign exchange revenues. Quarter over quarter, the decline in other income was mainly due to lower retail brokerage revenues from a reduction in customer trading volumes.

Credit quality was strong in both the retail and commercial portfolios.

Non-interest expenses grew 3% from the same quarter last year. This increase was due to merit-based growth in salaries and higher pension costs. Also contributing to the rise in expenses were higher mortgage acquisition costs and growth in processing expenses, consistent with volume growth.

Quarter over quarter, expenses were relatively unchanged as lower performance-based compensation was offset by higher mortgage acquisition costs.

## Scotia Capital

<i>(Unaudited)</i> (\$ millions) <i>(Taxable equivalent basis)</i> <sup>(1)</sup>	For the three months ended			For the nine months ended	
	<b>July 31 2004</b>	April 30 2004	July 31 2003	<b>July 31 2004</b>	July 31 2003
<b>Business line income</b>					
Net interest income	\$ 230	\$ 261	\$ 315	\$ 745	\$ 970
Provision for credit losses	(28)	(32)	(132)	(131)	(527)
Other income	309	328	330	969	994
Non-interest expenses	(249)	(268)	(262)	(758)	(741)
Provision for income taxes	(66)	(78)	(58)	(215)	(196)
<b>Net income</b>	<b>\$ 196</b>	<b>\$ 211</b>	<b>\$ 193</b>	<b>\$ 610</b>	<b>\$ 500</b>
<b>Other measures</b>					
Return on equity <sup>(2)</sup>	<b>19.3%</b>	20.0%	14.2%	<b>18.8%</b>	11.3%
Average assets (\$ billions)	<b>\$ 108</b>	\$ 114	\$ 116	<b>\$ 111</b>	\$ 120

(1) Refer to footnote (2) on page 10.

(2) Refer to footnote (4) on page 10.

Scotia Capital reported earnings of \$196 million this quarter, a modest increase from a year ago, but down \$15 million or 7% from last quarter. However, ROE was a solid 19% in the quarter, well ahead of the levels earned in recent years.

For the nine months ended July 31, 2004, net income was \$610 million, a significant increase of \$110 million or 22% over last year, primarily due to lower provisions for credit losses.

Total revenues in the third quarter of 2004 decreased 17% from last year, primarily from the reduction in loan volumes and credit fees in North America and Europe, as a result of more selective lending and increased liquidity in the capital markets.

Total revenues fell \$50 million or 9% from the second quarter, primarily due to lower trading revenues. While strong revenues were earned from derivatives, foreign exchange trading and precious metals, they fell short of

the peaks achieved in recent quarters. In addition, challenging market conditions depressed revenues from new equity issues. However, revenues were bolstered in the quarter by merger and acquisition fees, which were at their highest level in the past several quarters.

Provisions for credit losses were \$28 million in the third quarter, a significant decline of \$104 million from last year, reflecting an improvement in all corporate lending portfolios, most notably in the U.S. There was also a modest reduction in credit losses compared to last quarter. For the nine-month period, credit losses were \$131 million, a significant improvement from \$527 million last year.

Total non-interest expenses fell 5% from last year and were 7% below the previous quarter, primarily due to lower performance-based compensation, in line with the decline in revenues.

## International Banking

<i>(Unaudited) (\$ millions)</i> <i>(Taxable equivalent basis)<sup>(1)</sup></i>	For the three months ended			For the nine months ended	
	<b>July 31 2004</b>	April 30 2004	July 31 2003	<b>July 31 2004</b>	July 31 2003
<b>Business line income</b>					
Net interest income	\$ 481	\$ 513	\$ 506	\$ 1,442	\$ 1,534
Provision for credit losses	(2)	(18)	3	(27)	(28)
Other income	181	197	174	552	584
Non-interest expenses	(390)	(426)	(402)	(1,206)	(1,253)
Provision for income taxes	(35)	(44)	(71)	(118)	(198)
Non-controlling interest in net income of subsidiaries	(17)	(22)	(35)	(62)	(126)
<b>Net income</b>	<b>\$ 218</b>	\$ 200	\$ 175	<b>\$ 581</b>	\$ 513
<b>Other measures</b>					
Return on equity <sup>(2)</sup>	<b>24.6%</b>	24.2%	21.7%	<b>22.8%</b>	21.2%
Average assets (\$ billions)	\$ 50	\$ 49	\$ 50	\$ 49	\$ 53

(1) Refer to footnote (2) on page 10.

(2) Refer to footnote (4) on page 10.

International Banking reported net income of \$218 million this quarter, a significant increase of \$43 million or 24% from last year, with higher contributions from all regions, namely the Caribbean, Latin America and Asia. This was achieved notwithstanding the negative effect of the appreciation of the Canadian dollar against the Mexican peso and many Caribbean currencies. Compared to the prior quarter, net income grew \$18 million or 9%.

For the nine months ended July 31, 2004, net income was \$581 million, up a substantial \$68 million or 13% over the same period last year.

Scotiabank Inverlat's third quarter contribution rose substantially over last year, following the increase in the Bank's ownership level to 97% earlier in 2004, and the recognition of benefits from Inverlat's tax loss carryforwards in the consolidated results. As well, Inverlat's earnings rose from strong business growth. Compared to

last quarter, Inverlat's contribution increased moderately continuing the steady growth of the past several quarters. Net income from the remaining operations in Latin America was below last year, as a result of lower gains on the sale of emerging market securities. However, results rose slightly from last quarter.

Caribbean net income increased by 21% from last year, earning through the negative effect of foreign currency translation as the Canadian dollar appreciated against many Caribbean currencies. The earnings growth was led by a greater contribution from the Dominican Republic. In addition, there was continued growth in retail loans and deposits across the region. Net income was slightly higher than last quarter as a result of lower expenses.

In Asia, net income exceeded both last year and last quarter, primarily due to lower credit losses.

## Other<sup>(1)</sup>

(Unaudited) (\$ millions) (Taxable equivalent basis) <sup>(2)</sup>	For the three months ended			For the nine months ended	
	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
<b>Business line income</b>					
Net interest income <sup>(3)</sup>	\$ (131)	\$ (182)	\$ (132)	\$ (412)	\$ (466)
Provision for credit losses	50	1	–	51	6
Other income	131	300	106	548	308
Non-interest expenses	(28)	(26)	(11)	(65)	(11)
Provision for income taxes <sup>(3)</sup>	41	22	57	129	224
Non-controlling interest in net income of subsidiaries	(33)	(33)	(34)	(100)	(87)
<b>Net income</b>	<b>\$ 30</b>	<b>\$ 82</b>	<b>\$ (14)</b>	<b>\$ 151</b>	<b>\$ (26)</b>
<b>Other measures</b>					
Average assets (\$ billions)	\$ 13	\$ 14	\$ 16	\$ 14	\$ 17

Other segments, which include Group Treasury, reported net income of \$30 million for the quarter, versus a loss of \$14 million in the same quarter last year. This improvement was largely due to the \$50 million reduction in the general allowance for credit losses this quarter.

Compared to the prior quarter, net income fell \$52 million, largely because last quarter included a \$125 million

(\$81 million after tax) gain realized on the sale of a portion of the Bank's investment holding in Shinsei Bank. Partly offsetting this was the \$50 million reduction in the general allowance this quarter. Net interest income also improved quarter over quarter, mainly from the mark-to-market adjustment for certain derivatives that no longer qualified as hedges under the new accounting rules.

## Total

(Unaudited) (\$ millions)	For the three months ended			For the nine months ended	
	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
<b>Business line income</b>					
Net interest income	\$ 1,466	\$ 1,493	\$ 1,555	\$ 4,439	\$ 4,634
Provision for credit losses	(50)	(130)	(200)	(350)	(773)
Other income	1,035	1,249	1,009	3,324	3,008
Non-interest expenses	(1,472)	(1,523)	(1,453)	(4,401)	(4,237)
Provision for income taxes	(196)	(248)	(216)	(627)	(602)
Non-controlling interest in net income of subsidiaries	(50)	(55)	(69)	(162)	(213)
<b>Net income</b>	<b>\$ 733</b>	<b>\$ 786</b>	<b>\$ 626</b>	<b>\$ 2,223</b>	<b>\$ 1,817</b>
<b>Other measures</b>					
Return on equity <sup>(4)</sup>	19.4%	21.8%	17.7%	20.2%	17.2%
Average assets (\$ billions)	\$ 284	\$ 286	\$ 284	\$ 284	\$ 290

(1) Includes all other smaller operating segments and corporate adjustments, such as the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

(2) The Bank, like some other banks, analyzes revenues, net interest margin on total average assets and the productivity ratio on a taxable equivalent basis (TEB). This methodology grosses up tax-exempt income earned on certain securities to an equivalent before-tax basis. In the presentation of business line results, the corresponding offset is made in the provision for income taxes.

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. This use of TEB results in measures that are different from comparable GAAP measures and may not be the same as measures presented by other companies.

(3) Includes the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes for the three months ended July 31, 2004 (\$68), April 30, 2004 (\$65), and July 31, 2003 (\$75), and for the nine months ended July 31, 2004 (\$201), and July 31, 2003 (\$210), to arrive at the amounts reported in the Consolidated Statement of Income.

(4) For management and internal reporting purposes, the Bank allocates equity to its business lines using a methodology that considers credit, market and operational risk inherent in each business line. Return on equity is calculated based on the economic equity allocated to the business line. Economic equity is not a defined term under GAAP and, accordingly, the resulting return on equity for each business line may not be comparable to those used by other financial institutions.

## Geographic Highlights

<i>(Unaudited)</i>	For the three months ended			For the nine months ended	
	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
<b>Net income</b> (\$ millions)					
Canada	\$ 421	\$ 387	\$ 375	\$ 1,278	\$ 1,192
United States	89	91	89	258	204
Other international	244	336	205	764	514
Corporate adjustments	(21)	(28)	(43)	(77)	(93)
	\$ 733	\$ 786	\$ 626	\$ 2,223	\$ 1,817
<b>Average assets</b> (\$ billions)					
Canada	\$ 190	\$ 188	\$ 177	\$ 188	\$ 174
United States	19	22	32	22	36
Other international	74	74	71	72	76
Corporate adjustments	1	2	4	2	4
	\$ 284	\$ 286	\$ 284	\$ 284	\$ 290

## Share Capital

	As at July 31 2004 <sup>(1)</sup>
<i>(thousands of shares)</i>	
Preferred shares Series 12	12,000
Class A preferred shares issued by Scotia Mortgage Investment Corporation	250
Series 2000-1 trust securities issued by BNS Capital Trust	500 <sup>(2)</sup>
Series 2002-1 trust securities issued by Scotiabank Capital Trust	750 <sup>(2)</sup>
Series 2003-1 trust securities issued by Scotiabank Capital Trust	750 <sup>(2)</sup>
Common shares outstanding	1,008,181
Outstanding options granted under the Stock Option Plans to purchase common shares	44,365 <sup>(3)</sup>

(1) As at August 23, 2004, the number of outstanding common shares and options were 1,008,271 and 44,269, respectively. The number of other securities disclosed in this table were unchanged.

(2) Reported in non-controlling interest in subsidiaries in the Consolidated Balance Sheet.

(3) Included are 14,602 stock options with tandem SAR features.

Further details are available in Notes 13 and 14 of the October 31, 2003, consolidated financial statements presented in the 2003 Annual Report, and Note 4 on page 17 of this report.

**Forward-looking statements** This document includes forward-looking statements which are made pursuant to the “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995. These statements include comments with respect to our objectives, strategies, expected financial results (including those in the area of risk management), and our outlook for our businesses and for the Canadian, U.S. and global economies. Forward-looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “intent,” “estimate,” “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. The Bank cautions readers not to place undue reliance on these statements, as a number of important factors 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; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services; the Bank’s ability to complete and integrate acquisitions; 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; consolidation in the Canadian financial services sector; changes in tax laws; competition; judicial and regulatory proceedings; acts of God, such as earthquakes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; 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.

The Bank cautions that the foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Bank, investors and others should carefully consider the foregoing 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 behalf of the Bank.

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).

# Interim Consolidated Financial Statements

## Consolidated Statement of Income

	For the three months ended			For the nine months ended	
	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
<i>(Unaudited) (\$ millions)</i>					
<b>Interest income</b>					
Loans	\$ 2,248	\$ 2,235	\$ 2,473	\$ 6,783	\$ 7,606
Securities	657	674	718	2,015	2,205
Deposits with banks	116	107	111	321	342
	<b>3,021</b>	3,016	3,302	<b>9,119</b>	10,153
<b>Interest expense</b>					
Deposits	1,196	1,101	1,294	3,532	4,011
Subordinated debentures	29	27	26	82	113
Other	330	395	427	1,066	1,395
	<b>1,555</b>	1,523	1,747	<b>4,680</b>	5,519
<b>Net interest income</b>	<b>1,466</b>	1,493	1,555	<b>4,439</b>	4,634
Provision for credit losses (Note 6)	50	130	200	350	773
Net interest income after provision for credit losses	<b>1,416</b>	1,363	1,355	<b>4,089</b>	3,861
<b>Other income</b>					
Card revenues	58	53	49	172	146
Deposit and payment services	169	161	153	485	445
Mutual funds	43	43	41	127	120
Investment management, brokerage and trust services	123	143	116	391	333
Credit fees	150	144	181	440	526
Trading revenues	101	105	101	358	394
Investment banking	160	183	195	504	508
Net gain on investment securities	106	247	28	423	93
Securitization revenues	17	40	43	85	114
Other	108	130	102	339	329
	<b>1,035</b>	1,249	1,009	<b>3,324</b>	3,008
Net interest and other income	<b>2,451</b>	2,612	2,364	<b>7,413</b>	6,869
<b>Non-interest expenses</b>					
Salaries and staff benefits	875	907	877	2,623	2,508
Premises and technology	283	282	295	846	851
Communications	62	60	61	181	190
Advertising and business development	51	53	48	151	144
Professional	39	47	30	115	101
Business and capital taxes	37	36	38	110	111
Other	125	138	104	375	301
Loss on disposal of subsidiary operations	–	–	–	–	31
	<b>1,472</b>	1,523	1,453	<b>4,401</b>	4,237
Income before the undernoted	<b>979</b>	1,089	911	<b>3,012</b>	2,632
Provision for income taxes	196	248	216	627	602
Non-controlling interest in net income of subsidiaries	50	55	69	162	213
<b>Net income</b>	<b>\$ 733</b>	\$ 786	\$ 626	<b>\$ 2,223</b>	\$ 1,817
Preferred dividends paid and other	6	6	10	32	61
<b>Net income available to common shareholders</b>	<b>\$ 727</b>	\$ 780	\$ 616	<b>\$ 2,191</b>	\$ 1,756
Average number of common shares outstanding <sup>(1)</sup> (millions):					
Basic	1,008	1,011	1,010	1,010	1,009
Diluted	1,024	1,028	1,027	1,026	1,025
<b>Earnings per common share<sup>(1)</sup> (in dollars):</b>					
Basic	\$ 0.72	\$ 0.77	\$ 0.61	\$ 2.17	\$ 1.74
Diluted	\$ 0.71	\$ 0.75	\$ 0.60	\$ 2.13	\$ 1.71
<b>Dividends per common share<sup>(1)</sup> (in dollars)</b>	<b>\$ 0.30</b>	\$ 0.25	\$ 0.22	<b>\$ 0.80</b>	\$ 0.62

(1) Amounts have been retroactively adjusted to reflect the stock dividend paid April 28, 2004, of one common share for each issued and outstanding common share. The stock dividend had the same effect as a two-for-one stock split.

The accompanying notes are an integral part of these interim consolidated financial statements.

# Consolidated Balance Sheet

As at

<i>(Unaudited) (\$ millions)</i>	<b>July 31 2004</b>	April 30 2004	October 31 2003	July 31 2003
<b>Assets</b>				
<b>Cash resources</b>				
Cash and non-interest-bearing deposits with banks	\$ 1,411	\$ 1,417	\$ 1,373	\$ 1,301
Interest-bearing deposits with banks	16,840	16,668	17,111	15,776
Precious metals	2,275	2,627	2,097	2,188
	<b>20,526</b>	20,712	20,581	19,265
<b>Securities</b>				
Investment	18,343	18,377	20,293	19,186
Trading	46,161	42,184	42,899	40,435
	<b>64,504</b>	60,561	63,192	59,621
<b>Loans</b>				
Residential mortgages	66,955	63,829	61,646	59,189
Personal and credit cards	29,475	28,432	26,277	25,325
Business and governments	61,259	62,485	64,313	68,762
Securities purchased under resale agreements	21,307	21,225	22,648	22,843
	<b>178,996</b>	175,971	174,884	176,119
Allowance for credit losses (Note 6)	3,242	3,303	3,217	3,498
	<b>175,754</b>	172,668	171,667	172,621
<b>Other</b>				
Customers' liability under acceptances	6,494	7,219	6,811	6,956
Land, buildings and equipment	1,872	1,872	1,944	2,019
Trading derivatives' market valuation	11,163	13,745	15,308	14,639
Goodwill	271	280	270	348
Other intangible assets	246	253	284	282
Other assets	6,060	6,324	5,835	6,409
	<b>26,106</b>	29,693	30,452	30,653
	<b>\$ 286,890</b>	\$ 283,634	\$ 285,892	\$ 282,160
<b>Liabilities and shareholders' equity</b>				
<b>Deposits</b>				
Personal	\$ 79,569	\$ 79,464	\$ 76,431	\$ 77,144
Business and governments	97,478	95,486	93,541	90,398
Banks	24,086	22,691	22,700	22,742
	<b>201,133</b>	197,641	192,672	190,284
<b>Other</b>				
Acceptances	6,494	7,219	6,811	6,956
Obligations related to securities sold under repurchase agreements	23,299	22,535	28,686	27,904
Obligations related to securities sold short	11,421	9,527	9,219	9,640
Trading derivatives' market valuation	10,972	12,645	14,758	14,144
Other liabilities	13,094	13,697	14,145	13,463
Non-controlling interest in subsidiaries	2,280	2,277	2,326	2,335
	<b>67,560</b>	67,900	75,945	74,442
<b>Subordinated debentures</b>	<b>2,666</b>	2,686	2,661	2,701
<b>Shareholders' equity</b>				
Capital stock				
Preferred shares	550	550	800	800
Common shares and contributed surplus	3,204	3,187	3,141	3,131
Retained earnings	12,881	12,512	11,747	11,392
Cumulative foreign currency translation	(1,104)	(842)	(1,074)	(590)
	<b>15,531</b>	15,407	14,614	14,733
	<b>\$ 286,890</b>	\$ 283,634	\$ 285,892	\$ 282,160

The accompanying notes are an integral part of these interim consolidated financial statements.

## Consolidated Statement of Changes in Shareholders' Equity

For the nine months ended

<i>(Unaudited)</i> (\$ millions)	<b>July 31 2004</b>	July 31 2003
<b>Preferred shares</b>		
Bank:		
Balance at beginning of period	\$ 550	\$ 1,025
Redeemed	(250)	(475)
Balance at end of period	300	550
Scotia Mortgage Investment Corporation	250	250
<b>Total</b>	<b>550</b>	<b>800</b>
<b>Common shares and contributed surplus</b>		
Common shares:		
Balance at beginning of period	3,140	3,002
Issued	88	145
Purchased for cancellation	(25)	(17)
Balance at end of period	3,203	3,130
Contributed surplus: Fair value of stock options	1	1
<b>Total</b>	<b>3,204</b>	<b>3,131</b>
<b>Retained earnings</b>		
Balance at beginning of period	11,747	10,398
Net income	2,223	1,817
Dividends: Preferred	(22)	(42)
Common	(808)	(626)
Purchase of shares and premium on redemption	(259)	(144)
Other	-	(11)
Balance at end of period	12,881	11,392
<b>Cumulative foreign currency translation</b>		
Balance at beginning of period	(1,074)	102
Net unrealized foreign exchange translation gains/(losses) <sup>(1)</sup>	(30)	(692)
Balance at end of period	(1,104)	(590)
<b>Total shareholders' equity at end of period</b>	<b>\$ 15,531</b>	<b>\$ 14,733</b>

(1) Comprises unrealized foreign exchange translation gains/(losses) on net investments in self-sustaining foreign operations of \$131 (July 31, 2003 - \$(1,370)) and gains/(losses) from related foreign exchange hedging activities of \$(161) (July 31, 2003 - \$678).

The accompanying notes are an integral part of these interim consolidated financial statements.

## Condensed Consolidated Statement of Cash Flows

	For the three months ended		For the nine months ended	
Sources and (uses) of cash flows (Unaudited) (\$ millions)	July 31 2004	July 31 2003	July 31 2004	July 31 2003
<b>Cash flows from operating activities</b>				
Net income	\$ 733	\$ 626	\$ 2,223	\$ 1,817
Adjustments to net income to determine cash flows	(51)	292	9	971
Net accrued interest receivable and payable	(37)	68	(223)	311
Trading securities	(4,405)	(2,323)	(3,374)	(6,973)
Trading derivatives' market valuation, net	875	(183)	364	(261)
Other, net	560	(1,397)	(524)	(1,128)
	(2,325)	(2,917)	(1,525)	(5,263)
<b>Cash flows from financing activities</b>				
Deposits	5,979	3,315	7,514	4,123
Obligations related to securities sold under repurchase agreements	1,166	(6,998)	(5,233)	(1,428)
Obligations related to securities sold short	1,966	498	2,205	1,002
Subordinated debenture redemptions/repayments	–	(343)	–	(1,059)
Capital stock issued	23	67	88	145
Capital stock redeemed/purchased for cancellation	(62)	–	(534)	(636)
Cash dividends paid	(308)	(233)	(830)	(668)
Other, net	(512)	(257)	(360)	(472)
	8,252	(3,951)	2,850	1,007
<b>Cash flows from investing activities</b>				
Interest-bearing deposits with banks	(576)	(531)	593	(350)
Loans, excluding securitizations	(5,761)	6,149	(6,782)	2,631
Loan securitizations	859	701	2,735	1,828
Investment securities, net	(268)	571	2,833	1,081
Land, buildings and equipment, net of disposals	(64)	(21)	(139)	(77)
Other, net <sup>(1)</sup>	–	(6)	(59)	(471)
	(5,810)	6,863	(819)	4,642
Effect of exchange rate changes on cash and cash equivalents	(27)	(23)	8	(104)
Net change in cash and cash equivalents	90	(28)	514	282
Cash and cash equivalents at beginning of period	1,321	899	897	589
Cash and cash equivalents at end of period	\$ 1,411	\$ 871	\$ 1,411	\$ 871
Represented by:				
Cash and non-interest-bearing deposits with banks	\$ 1,411	\$ 1,301		
Cheques and other items in transit, net liability	–	(430)		
Cash and cash equivalents at end of period	\$ 1,411	\$ 871		
Cash disbursements made for:				
Interest	\$ 1,462	\$ 1,727	\$ 4,899	\$ 5,438
Income taxes	\$ 135	\$ 24	\$ 571	\$ 311

(1) Represents investment in subsidiaries.

The accompanying notes are an integral part of these interim consolidated financial statements.

## Notes to the Interim Consolidated Financial Statements (*Unaudited*):

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). They should be read in conjunction with the consolidated financial statements for the year ended October 31, 2003. The accounting policies used in the preparation of these interim consolidated financial statements are consistent with those used in the Bank's year-end audited consolidated financial statements, except as discussed in Note 1. Certain comparative amounts have been reclassified to conform with the current period's presentation.

### 1. **New accounting policies:**

#### **Hedging**

Effective November 1, 2003, the Bank adopted a new accounting guideline for hedging relationships, issued by the Canadian Institute of Chartered Accountants (CICA). This guideline establishes certain qualifying conditions for the use of hedge accounting, which are more stringent and formalized than prior standards. Income and expenses on derivative instruments designated and qualifying as hedges under this guideline are recognized in the Consolidated Statement of Income in the same period as the related hedged item. Asset-liability management (non-trading) derivatives that do not qualify for hedge accounting are carried at fair value on the Consolidated Balance Sheet, and subsequent changes in their fair value are recorded in the Consolidated Statement of Income as follows: interest rate-related contracts in net interest income; options used in managing investment securities in net gain on investment securities; and other derivative contracts in other income – other.

The Bank reassessed its hedging relationships as at November 1, 2003, which on transition resulted in an associated unrealized net loss of \$44 million. This amount was deferred in other assets in the Consolidated Balance Sheet, and is being recognized in earnings as the original hedged items affect net income. The adoption of this accounting guideline did not have a material impact on the Bank's results of operations.

#### **Generally accepted accounting principles**

Effective November 1, 2003, the Bank, as required, prospectively adopted a new CICA standard for financial reporting. This standard (section 1100) formalizes the Canadian GAAP framework and specifies that industry practice is no longer recognized as a source of GAAP. The changes in accounting policies as a result of adopting this standard did not have a material impact on the Bank's results of operations and are set out below.

#### *Computer software development costs*

Effective November 1, 2003, certain costs incurred for software development are capitalized and amortized over the useful life of the software. Previously, these costs were expensed as incurred.

#### *Common shares*

The Bank's broker-dealer subsidiary, as permitted by Bank Act regulations, trades in the Bank's shares. Prior to November 1, 2003, these shares were accounted for as trading securities. Effective November 1, 2003, trades in the Bank's shares are accounted for as capital transactions in shareholders' equity.

#### *Mortgage prepayment fees*

Prior to November 1, 2003, mortgage prepayment fees were deferred by the Bank and amortized over the remaining term of the original mortgage. As at October 31, 2003, deferred mortgage prepayment fees of \$75 million were recorded in other liabilities. Effective November 1, 2003, the Bank recognizes mortgage prepayment fees in interest income unless only minor modifications (based on a present value cash flow test) were made to the mortgage, in which case they continue to be deferred and amortized. The majority of these prepayment fees continue to be deferred and amortized.

#### *Other*

The Bank continues to evaluate the presentation of certain asset and liability balances on the Consolidated Balance Sheet. The impact of these changes is not expected to be material to the consolidated financial statements.

## 2. Future accounting changes:

### **Consolidation of variable interest entities (VIEs)**

In March 2004, the CICA issued a draft document amending the VIE accounting guideline, previously issued in June 2003, to harmonize with the December 2003 revisions to the U.S. VIE accounting standard. Under these revisions, the Bank does not expect to consolidate most of the mutual funds it sponsors, nor its personal and corporate trust structures. Apart from this change, the disclosure of the estimated financial statement impact described in Note 2 to the consolidated financial statements for the year ended October 31, 2003, continues to apply. As implementation issues are addressed and revisions to the accounting guideline are made, the estimated impact of this new guideline may change.

### **Liabilities and equity**

In January 2004, the CICA issued a new pronouncement amending the accounting for certain financial instruments, which have the characteristics of both a liability and equity. This pronouncement requires certain contractual obligations that can be settled at the issuer's option by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than as equity. This change in accounting would be applied retroactively, with restatement of comparative amounts, and is effective for the Bank's interim financial statements commencing November 1, 2004.

The Bank expects that the \$250 million of preferred shares issued by Scotia Mortgage Investment Corporation and \$2.0 billion of Scotiabank Trust Securities will be reclassified from shareholders' equity and non-controlling interest in subsidiaries, respectively, to liabilities. This will not impact the Bank's capital ratios, as the Superintendent of Financial Institutions Canada has confirmed that these existing securities will remain eligible as Tier 1 capital.

## 3. 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: Domestic Banking, International Banking and Scotia Capital. Results for these operating segments are presented in the Business line income tables on pages 8 to 10.

## 4. Significant capital transactions

On January 28, 2004, the Bank redeemed \$250 million Series 11 Non-cumulative Preferred Shares. These shares were redeemed at a price of \$26 per share, which included a premium of \$1 per share.

On April 28, 2004, the Bank paid a stock dividend of one common share for each of its issued and outstanding common shares to common shareholders of record at the close of business on April 6, 2004. The effect is the same as a two-for-one stock split of its common shares. Amounts presented in this report relating to the number of common shares, as well as all per share amounts, have been retroactively adjusted.

In the first quarter, the Bank initiated a new normal course issuer bid. Following the payment of the stock dividend, the number of shares authorized for purchase was adjusted to 50 million. This represents approximately 5 per cent of the Bank's outstanding common shares. The bid will terminate on the earlier of January 5, 2005, or the date the Bank completes its purchases. During the quarter, the Bank purchased 1.7 million common shares at an average cost of \$35.45. For the nine months ended July 31, 2004, 7.9 million common shares were purchased at an average price of \$34.63.

## 5. Sales of loans through securitizations

The Bank securitizes residential mortgages through the creation of mortgage-backed securities. The net gain on sale of the mortgages resulting from these securitizations is recognized in securitization revenues in the Consolidated Statement of Income. No credit losses are expected as the mortgages are insured. The following table summarizes the Bank's sales.

(\$ millions)	For the three months ended			For the nine months ended	
	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
Net cash proceeds	\$ 859	\$ 909	\$ 701	\$ 2,735	\$ 1,828
Retained interest	23	32	33	82	71
Retained servicing liability	(6)	(5)	(4)	(18)	(11)
	<b>876</b>	936	730	<b>2,799</b>	1,888
Residential mortgages securitized	<b>871</b>	908	704	<b>2,754</b>	1,846
Net gain on sale	\$ 5	\$ 28	\$ 26	\$ 45	\$ 42

## 6. Allowance for credit losses

The following table summarizes the change in the allowance for credit losses.

(\$ millions)	For the three months ended			For the nine months ended	
	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
Balance at beginning of period	\$ 3,317	\$ 3,270	\$ 3,995	\$ 3,580	\$ 3,848
Presented with securities	–	–	–	(363) <sup>(1)</sup>	–
Write-offs	(117)	(140)	(258)	(434)	(580)
Recoveries	46	33	40	119	119
Provision for credit losses	50 <sup>(3)</sup>	130	200	350 <sup>(2)(3)</sup>	773
Other, including foreign exchange adjustment	(40)	24	(81)	4	(264)
Balance at the end of period <sup>(2)(3)</sup>	\$ 3,256	\$ 3,317	\$ 3,896 <sup>(4)</sup>	\$ 3,256	\$ 3,896 <sup>(4)</sup>

(1) Effective November 1, 2003, the country risk allowance related to investment securities is no longer disclosed as part of the allowance for credit losses, but continues to be deducted from investment securities.

(2) As at July 31, 2004, \$14 (April 30, 2004 – \$14; July 31, 2003 – \$nil) has been recorded in other liabilities.

(3) As at July 31, 2004, the general allowance for credit losses was \$1,425 (April 30, 2004 – \$1,475; July 31, 2003 – \$1,475).

(4) Includes the country risk allowance related to investment securities of \$398, which was deducted from investment securities.

## 7. Employee future benefits

Employee future benefits include pensions and other retirement benefits, post-employment benefits and compensated absences. The following table summarizes the expense for the Bank's principal plans<sup>(1)</sup>.

(\$ millions)	For the three months ended			For the nine months ended	
	July 31 2004	April 30 2004	July 31 2003	July 31 2004	July 31 2003
<b>Benefit expense</b>					
Pension plans	\$ 21	\$ 22	\$ 6	\$ 65	\$ 18
Other benefit plans	26	26	23	78	67
	\$ 47	\$ 48	\$ 29	\$ 143	\$ 85

(1) Other minor plans operated by certain subsidiaries of the Bank are not considered material and are not included in this note.

# Shareholder & Investor Information

## Direct deposit service

Shareholders may have dividends deposited directly into accounts held at financial institutions which are members of the Canadian Payments Association. To arrange direct deposit service, please write to the Transfer Agent.

## Dividend and Share Purchase Plan

Scotiabank's dividend reinvestment and share purchase plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage or administrative fees.

As well, eligible shareholders may invest up to \$20,000 each fiscal year to purchase additional common shares of the Bank. Debenture holders may apply interest on fully registered Bank subordinated debentures to purchase additional common shares. All administrative costs of the plan are paid by the Bank.

For more information on participation in the plan, please contact the Transfer Agent.

## Dividend dates for 2004

Record and payment dates for common and preferred shares, subject to approval by the Board of Directors.

<b>Record Date</b>	<b>Payment Date</b>
January 6	January 28
April 6	April 28
July 6	July 28
October 5	October 27

## Duplicated communication

If your shareholdings are registered under more than one name or address, multiple mailings will result. To eliminate this duplication, please write to the Transfer Agent to combine the accounts.

## Website

For information relating to Scotiabank and its services, visit us at our website: [www.scotiabank.com](http://www.scotiabank.com).

## Conference call and Web broadcast

The quarterly results conference call will take place on Tuesday, August 31, 2004, at 3:00 p.m. EDT and is expected to last approximately one hour. Interested parties are invited to access the call live, in listen-only mode, by telephone, toll-free, at 1-800-814-3911 (please call five to 15 minutes in advance). In addition, an audio webcast, with accompanying slide presentation, may be accessed via the Investor Relations page of [www.scotiabank.com](http://www.scotiabank.com). Following discussion of the results by Scotiabank executives, there will be a question and answer session. Listeners are also invited to submit questions by e-mail to [investor.relations@scotiabank.com](mailto:investor.relations@scotiabank.com).

A telephone replay of the conference call will be available from August 31, 2004, to September 14, 2004, by calling (416) 640-1917 and entering the identification code 21080533#. The archived audio webcast will be available on the Bank's website for three months.

## Contact information

### Investors:

Financial analysts, portfolio managers and other investors requiring financial information, please contact Investor Relations, Finance Department:

Scotiabank  
Scotia Plaza, 44 King Street West,  
Toronto, Ontario, Canada M5H 1H1  
Telephone: (416) 866-5982  
Fax: (416) 866-7867  
E-mail: investor.relations@scotiabank.com

### Media:

For other information and for media enquiries, please contact the Public, Corporate and Government Affairs Department at the above address.

Telephone: (416) 866-3925  
Fax: (416) 866-4988  
E-mail: corpaff@scotiabank.com

### Shareholders:

For enquiries related to changes in share registration or address, dividend information, lost share certificates, estate transfers, or to advise of duplicate mailings, please contact the Bank's Transfer Agent:

Computershare Trust Company of Canada  
100 University Avenue, 9th Floor  
Toronto, Ontario, Canada M5J 2Y1  
Telephone: 1-800-564-6253  
Fax: 1-888-453-0330  
E-mail: service@computershare.com

Co-Transfer Agent (U.S.A.)  
Computershare Trust Company, Inc.  
350 Indiana Street  
Golden, Colorado 80401  
U.S.A.  
Telephone: 1-800-962-4284

Co-Transfer Agent (United Kingdom)<sup>(1)</sup>  
Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bedminster Down  
Bristol BS99 7NH  
United Kingdom  
Telephone: +44 870 702 0003  
Fax: +44 870 703 6101

*(1) Effective as of the close of business on March 30, 2004, the Bank's common shares are no longer listed on the London Stock Exchange and the Official List of the UK Listing Authority.*

For other shareholder enquiries, please contact the Secretary's Department:

Scotiabank  
Scotia Plaza, 44 King Street West  
Toronto, Ontario, Canada M5H 1H1  
Telephone: (416) 866-4790  
Fax: (416) 866-5090  
E-mail: corporate.secretary@scotiabank.com

### Rapport trimestriel disponible en version française

Le Rapport annuel et les états financiers périodiques de la Banque sont publiés en français et en anglais et distribués aux actionnaires dans la version de leur choix. Si vous préférez que la documentation vous concernant vous soit adressée en français, veuillez en informer le Service des relations publiques de la Banque Scotia, Scotia Plaza, 44, rue King Ouest, Toronto (Ontario), Canada M5H 1H1, en joignant, si possible, l'étiquette d'adresse, afin que nous puissions prendre note du changement.

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