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, 2007 **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 8th 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, 25th 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	983,767,155
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

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 94 of Exhibit 3, 2007 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 2007 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.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified by these regulators. This 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.

Internal control over financial reporting is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting and preparation of the Bank's consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to United States GAAP. These controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the annual or interim financial statements.

The management of the Bank is responsible for establishing and maintaining disclosure controls and procedures, and has designed these disclosure controls and procedures, to ensure that the required objectives described above have been met.

As of October 31, 2007, the Bank's management 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. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO. In addition, the Bank's management has assessed whether during the 2007 fiscal year, there have been any 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.

The Bank continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, the Bank's management acknowledges that its disclosure controls and procedures 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.

Based on the evaluation of disclosure controls and procedures, and assessment of changes in internal control over financial reporting, the CEO and CFO have concluded that, subject to the inherent limitations noted above:

- the Bank's disclosure controls and procedures are effective; and
- during the 2007 fiscal year, 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.

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 5.

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”. These guidelines have been in place for many years and apply to all directors, officers and employees of the Bank. The Scotiabank Guidelines for Business Conduct are available on the Bank’s website at 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 Scotiabank Guidelines for Business Conduct, entitled Financial Reporting Whistleblower Policy, is also posted on the Bank’s website. Amendments to the Scotiabank Guidelines for Business Conduct 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 2007.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The disclosure provided in Table 47 “Fees paid to the shareholders’ auditors” on page 82 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 statutory audits of financial statements, accounting consultation, other regulatory-required auditor attest services related to the 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, and audits of employee benefit plans and other associated entities. In 2007 these services included specified procedures with respect to a potential international acquisition.
- Tax services outside of the audit scope represent primarily specified procedures with respect to specific tax requirements relating to the corporate tax returns of a subsidiary, assistance with the preparation of personal tax returns of individuals not in financial reporting or accounting roles, specified review procedures required by local tax authorities, and attestation on tax returns of certain subsidiaries as required by local tax authorities. The 2006 fees also included specific procedures relating to the preparation of certain corporate tax returns.
- Other non-audit services are primarily foreign language translation services.

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 2007 and 2006 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, which were revised effective March 5, 2007, are attached as Exhibit 7.

OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under “Off-Balance Sheet Arrangements” on pages 42 to 44 and “Variable Interest Entities” on pages 71 and 72 of Exhibit 2, Management’s Discussion and Analysis, is incorporated by reference herein. Additional information from note 1 on pages 101 to 106, note 4(b) on page 109, note 6 on pages 110 and 111, note 13 on pages 113 and 114, note 14 on page 115, note 22 on pages 125 and 126, note 23 on pages 127 to 130, and note 25 on pages 132 to 136 of Exhibit 3, 2007 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 65 of Exhibit 2, Management’s Discussion and Analysis, is incorporated by reference herein. Additional information from note 10 on page 112, note 18 on pages 120 to 122, note 22 on pages 125 and 126, and note 23 on pages 127 to 130 of Exhibit 3, 2007 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, Hon. Barbara J. McDougall, Elizabeth Parr-Johnston, 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/ R. Waugh
Name: Richard E. Waugh
Title: President and Chief Executive Officer

Date: December 18, 2007

EXHIBIT INDEX

Exhibit No.	Description
1.	Annual Information Form dated December 18, 2007
2.	Management's Discussion and Analysis (pages 25 through 91 of the 2007 Annual Report)
3.	2007 Consolidated Financial Statements (pages 93 through 141 of the 2007 Annual Report)
4.	The following page of the 2007 Annual Report is also incorporated by reference into the Annual Information Form: Principal Subsidiaries (page 142 of the 2007 Annual Report)
5.	Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm (page 92 of the 2007 Annual Report)
6.	Corporate Governance
7.	Policy for the Pre-Approval of Services Performed by the External Auditor
8.	Auditors' Consent in respect of the fiscal years ended October 31, 2007 and 2006
9.	Auditors' Consent in respect of the fiscal year ended October 31, 2005
10.	Comments by Auditors for U.S. Readers on Canada — U.S. Reporting Differences
11.	Shareholders' Auditors' Report, November 29, 2005
12.	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.
13.	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.

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The Bank of Nova Scotia

ANNUAL INFORMATION FORM

DECEMBER 18, 2007

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Distribution Notice

When this annual information form is provided to security holders or other interested parties, it must be accompanied by copies of all the documents (or excerpts thereof) incorporated herein by reference. Portions of this Annual Information Form of The Bank of Nova Scotia (the "Bank") dated December 18, 2007 (the "AIF"), are disclosed in the Annual Report to Shareholders for the year ended October 31, 2007 (the "Annual Report"). The Annual Report is also available on SEDAR at www.sedar.com.

Financial Data

Except as otherwise noted, all information is given at or for the year ended October 31, 2007. 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; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; operational and reputational risks; 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 56 to 67 inclusive, of the Bank's 2007 Annual Report 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.

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.

The Bank's principal subsidiaries are listed on page 142 of the Annual Report, and that page is incorporated herein by reference.

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. The Bank is a full-service financial institution, active in both domestic and international markets. In Canada, the Bank provides a full range of retail, commercial, corporate, investment and wholesale banking services through its extensive network of branches and offices across the country. With approximately 60,000 employees (31,000 in Canada), the Bank, and its affiliates, have branches and offices serving more than 12.5 million customers in some 50 countries, which provide a wide range of banking and financial services.

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%.

In the fiscal year ended October 31, 2005, the Bank's net income available to common shareholders was a record $3,184 million, an increase of $292 million or 10% higher than 2004. Earnings per share (on a diluted basis) were $3.15, up 12% from $2.82 in 2004. This strong performance boosted return on equity to 20.9%, its highest level in eight years. In fiscal 2005, the Bank's actual dividend payout ratio was 41%, up from 38% in 2004 and well 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: Domestic 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 2007 Management's Discussion and Analysis found on pages 45 to 55 inclusive of the Annual Report, and those pages are herein incorporated by reference.

Domestic Banking

Domestic Banking provides a full range of banking and investing services to more than 7 million customers across Canada, through a network of 1,005 branches and 2,852 automated banking machines ("ABMs"), as well as telephone and Internet banking. Domestic Banking includes three main businesses. Retail and Small Business Banking provides a comprehensive suite of offerings, including 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 planning and private client services for affluent clients. Commercial Banking delivers a full product suite to medium and large businesses.

International Banking

International Banking operates in more than 40 countries, and includes Scotiabank's retail and commercial banking operations outside of Canada. Through our network of 1,480 branches and offices and 2,980 ABMs, as well as telephone and Internet banking, we provide a full range of financial services to more than 5 million customers. International Banking is organized into the following geographic regions: 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, providing full-service coverage across the NAFTA region, and serving selected niche markets globally. We offer financial products and services to corporate, government and institutional investor clients. Scotia Capital is organized into two main businesses. Global Capital Markets provides capital markets products and services, such as fixed income, derivatives, prime brokerage, structured products, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious metals. Global Corporate and Investment Banking provides corporate lending, equity underwriting and mergers & acquisitions advisory services.

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 16 smaller domestic banks, 50 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 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. Another indicator of competition is new entrants into the market and there have been 6 domestic and 6 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. With Minister of Finance approval, a person or group of associated

persons may own up to 20% of any class of voting shares and up to 30% of any class non-voting shares of the Bank. 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 Dealers Association 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.

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 may be found on the Bank's website in the Community Development section.

Risk Factors

The risks faced by the Bank are described on pages 56 to 67 inclusive of the Annual Report 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. Further, dividends cannot be declared if the total of all dividends declared that year would exceed the aggregate of the Bank's net income to that date and its net income for the preceding two financial years, unless the Superintendent's approval is obtained. In fiscal 2007 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.

The Bank's Dividend Philosophy

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%. The Bank's practice has been to relate dividends to the trend in earnings, while ensuring that capital levels are sufficient for both depositor protection and growth.

The Bank has declared and paid the following dividends on its common shares over the past three completed financial years:

Year	Common share dividend
2007	$1.74
2006	$1.50
2005	$1.32

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 983,767,155 common shares were issued and outstanding as at October 31, 2007.

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, 2007, 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") and 13,800,000 non-cumulative preferred shares, series 16 ("Preferred Shares, Series 16") were issued and 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 and the Preferred Shares, Series 16.

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, at a quarterly rate equal to $0.328125 per share. 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, at a quarterly rate equal to $0.30 per share. 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, at a quarterly rate equal to $0.28125 per share. 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, at a quarterly rate equal to $0.28125 per share. 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, at a quarterly rate equal to $0.328125 per share. The first such dividends, if declared, shall be paid on January 29, 2008 and shall be $0.39195 per share. 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.

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.

	Moody's Investor Service[1]	Standard & Poor's	Fitch Ratings	DBRS[1]
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)

[1] The Bank's non-cumulative preferred shares are rated Aa3 by Moody's and Pfd-1 by DBRS.

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 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.

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 and "BNS.PR.N" for the Preferred Shares, Series 16. 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

Common Shares

The following table presents the high and low closing prices for the Bank's common shares and the trading volume, on a monthly basis on the TSX.

Month	High	Low	Monthly Trading Volume
October 2007	$53.48	$50.05	2,133,950
September 2007	$53.00	$51.43	2,209,679
August 2007	$52.24	$47.45	2,864,585
July 2007	$52.23	$49.24	2,234,717
June 2007	$53.87	$51.28	2,771,240
May 2007	$54.48	$52.70	1,841,177
April 2007	$54.20	$52.93	1,610,268
March 2007	$54.29	$49.68	2,145,352
February 2007	$51.86	$50.86	1,415,860
January 2007	$52.31	$50.55	1,619,121
December 2006	$52.79	$50.97	2,278,884
November 2006	$52.80	$50.10	1,791,882

Preferred Shares, Series 12

The following table presents the high and low closing prices for the Bank's Preferred Shares, Series 12 and the trading volume, on a monthly basis on the TSX.

Month	High	Low	Monthly Trading Volume
October 2007	$25.26	$24.19	12,373
September 2007	$26.46	$25.09	8,180
August 2007	$26.00	$25.53	7,650
July 2007	$25.85	$25.30	6,599
June 2007	$25.90	$25.00	11,087
May 2007	$26.39	$25.80	7,596
April 2007	$26.70	$26.13	8,100
March 2007	$27.23	$26.65	9,186
February 2007	$27.14	$26.99	4,742
January 2007	$27.17	$26.66	4,937
December 2006	$27.17	$26.80	5,828
November 2006	$27.26	$26.90	4,399

Preferred Shares, Series 13

The following table presents the high and low closing prices for the Bank's Preferred Shares, Series 13 and the average daily trading volume, on a monthly basis on the TSX.

Month	High	Low	Monthly Trading Volume
October 2007	$23.39	$21.60	15,554
September 2007	$24.81	$23.37	12,380
August 2007	$24.50	$24.10	6,904
July 2007	$24.48	$24.05	9,674
June 2007	$24.95	$23.30	19,439
May 2007	$25.79	$25.15	11,302
April 2007	$25.94	$25.53	6,219
March 2007	$26.35	$25.88	20,277
February 2007	$26.11	$25.92	5,457
January 2007	$26.10	$25.80	17,189
December 2006	$26.64	$26.10	4,898
November 2006	$26.33	$25.97	6,223

Preferred Shares, Series 14

The following table presents the high and low closing prices for the Bank's Preferred Shares, Series 14 and the average daily trading volume, on a monthly basis on the TSX. The Preferred Shares, Series 14 were issued and commenced trading on January 24, 2007.

Month	High	Low	Monthly Trading Volume
October 2007	$21.89	$20.71	33,086
September 2007	$23.99	$21.76	11,104
August 2007	$23.23	$22.80	10,483
July 2007	$22.97	$22.24	13,027
June 2007	$23.50	$22.21	19,440
May 2007	$24.97	$23.60	31,588
April 2007	$24.99	$24.85	24,910
March 2007	$25.25	$24.94	17,955
February 2007	$25.30	$24.99	17,965
January 2007	$25.07	$25.00	118,774

Preferred Shares, Series 15

The following table presents the high and low closing prices for the Bank's Preferred Shares, Series 15 and the average daily trading volume, on a monthly basis on the TSX. Twelve million Preferred Shares, Series 15 were issued and commenced trading on April 5, 2007, and pursuant to the exercise of the underwriters' over-allotment option, an additional 1.8 million Preferred Shares, Series 15 were issued and commenced trading on April 17, 2007.

Month	High	Low	Monthly Trading Volume
October 2007	$21.80	$20.73	30,013
September 2007	$23.87	$21.60	11,125
August 2007	$23.25	$22.77	18,375
July 2007	$22.83	$22.27	18,396
June 2007	$23.50	$22.09	27,158
May 2007	$24.97	$23.41	32,143
April 2007	$24.95	$24.84	80,748

Preferred Shares, Series 16

The following table presents the high and low closing prices for the Bank's Preferred Shares, Series 16 and the average daily trading volume, on a monthly basis on the TSX. The Preferred Shares, Series 16 were issued and commenced trading on October 12, 2007.

Month	High	Low	Monthly Trading Volume
October 2007	$24.85	$24.42	65,723

Prior Sales

In the most recently completed financial year, the Bank did not issue any class of securities not listed or quoted on a marketplace. 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, 2007, as contained in the Annual Report.

DIRECTORS AND EXECUTIVE OFFICERS OF THE BANK

Directors and Board Committees of the Bank

The following are the Bank's directors as of December 18, 2007. 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 Mrs. McDougall is no longer eligible to stand for re-election at the next annual meeting of shareholders, she will be retiring from the Board of Directors at that meeting but will continue to act as a director until then. Mr. Schwartz retired from the Board of Directors effective November 19, 2007.
Mr. Schwartz has been appointed an honorary director of the Bank. The Board intends to appoint Mrs. McDougall as an honorary director 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 2007 Management Proxy Circular of the Bank.

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	44,260 / 22,723
C.J. Chen Singapore (Director since October 30, 1990)	CGPC	Counsel to Rajah & Tann, advocates and solicitors, Singapore	33,624 / 9,692
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 / 16,143
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	11,800 / 21,682

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
		of the Vancouver Professional Baseball LLP, owner of the Vancouver Canadians minor league baseball team	
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	1,510 / 25,236
Laurent Lemaire Warwick, Quebec, Canada (Director since March 31, 1987)	ERC HRC	Executive Vice-Chairman of the Board of Cascades Inc., a manufacturer of pulp and paper products, packaging and construction materials and sanitary products	18,966 / 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	11,832 / 23,845
The Honourable Barbara J. McDougall, O.C. Toronto, Ontario, Canada (Director since March 30, 1999)	ACRC HRC	Advisor to Aird & Berlis LLP, barristers and solicitors, Toronto	6,397 / 9,811
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 / 20,059
Alexis E. Rovzar de la Torre New York, New York, U.S.A. (Director since December 31, 2005)	CGPC	Executive Partner in charge of the Latin American practice of White & Case LLP, a global law firm	4,392 / 0
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	15,838 / 14,175
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	72,581 / 24,882

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
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	16,000 / 21,906
Barbara S. Thomas Belleair, Florida, U.S.A. (Director since September 28, 2004)	ACRC HRC — Since March 2007	Corporate Director	5,561 / 0
Richard E. Waugh Toronto, Ontario, Canada (Director since March 25, 2003)	ERC	President and Chief Executive Officer of the Bank	115,194 / 316,234 (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, 2007.

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; 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 18, 2007:

Name and Principal Occupation	Municipality of Residence
Richard E. Waugh President and Chief Executive Officer	Toronto, Ontario
Robert L. Brooks Vice-Chairman and Group Treasurer	Oakville, Ontario
Sarabjit S. Marwah Vice-Chairman and Chief Administrative Officer	Toronto, Ontario
Deborah M. Alexander Executive Vice-President, General Counsel and Secretary	Toronto, Ontario
Peter C. Cardinal Executive Vice-President	Oakville, Ontario

Name and Principal Occupation	Municipality of Residence
Alberta G. Cefis Executive Vice-President and Group Head, Global Transaction Banking	Toronto, Ontario
Sylvia D. Chrominska Executive Vice-President, Human Resources and Public, Corporate and Government Affairs	Toronto, Ontario
Wendy G. Hannam Executive Vice-President, Domestic Personal Banking and Distribution	Toronto, Ontario
Timothy P. Hayward Executive Vice-President and Chief Administrative Officer, International Banking	Oakville, Ontario
Robin S. Hibberd Executive Vice-President, Domestic Personal Lending and Insurance	Toronto, Ontario
Christopher J. Hodgson Executive Vice-President, Head of Domestic Personal Banking	Toronto, Ontario
Dieter W. Jentsch Executive Vice-President, Domestic Commercial Banking	Toronto, Ontario
Barbara F. Mason Executive Vice-President, Wealth Management	Toronto, Ontario
Kimberlee B. McKenzie Executive Vice-President, Information Technology and Solutions	Oakville, Ontario
Robert H. Pitfield Executive Vice-President, International Banking	Toronto, Ontario
Brian J. Porter Executive Vice-President and Chief Risk Officer	Toronto, Ontario
Luc A. Vanneste Executive Vice-President and Chief Financial Officer	Etobicoke, Ontario
Anatol von Hahn Executive Vice-President, Latin America	Toronto, Ontario

All of the executive officers of the Bank have been actively engaged for more than five years in the affairs of the Bank in executive or senior management capacities, except Christopher J. Hodgson who, prior to July 14, 2003, was a senior officer of a Canadian mutual fund company; 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 or executive officer of any company, that while that person was acting in that capacity,

  (i) 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;

  (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade 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; or

  (iii) 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

(b) 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 Mrs. McDougall who was, prior to March 31, 2006, a director of Stelco Inc., which, in 2004, entered into an arrangement with its creditors and 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.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

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

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada is the Bank's transfer agent and registrar main agent at the following addresses: Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 and Computershare Trust Company, 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 "A" and can also be found on the Bank's website at 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), Barbara J. McDougall, Elizabeth Parr-Johnston, 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.

Barbara J. McDougall — Mrs. McDougall is a Chartered Financial Analyst and previously worked as an investment analyst for 10 years. Mrs. McDougall is also a Former Minister of State, Finance of the Canadian Government.

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.

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 47 on page 82 of the Annual Report, which is incorporated herein by reference, for disclosure relating to the fees paid by the Bank to the Bank's Shareholders' Auditors, KPMG LLP and its former auditors, PricewaterhouseCoopers 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 of financial statements, accounting consultation, other regulatory-required auditor attest services related to the 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, and audits of employee benefit plans and other associated entities. In 2007 these services included specified procedures with respect to a potential international acquisition.
- Tax services outside of the audit scope represent primarily specified procedures with respect to specific tax requirements relating to the corporate tax returns of a subsidiary, assistance with the preparation of personal tax returns of individuals not in financial reporting or accounting roles, specified review procedures required by local tax authorities, and attestation on tax returns of certain subsidiaries as required by local tax authorities. The 2006 fees also included specific procedures relating to the preparation of certain corporate tax returns.
- Other non-audit services are primarily foreign language translation services.

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 and on the United States Securities and Exchange Commission's website at 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, including the related management's discussion and analysis, is provided in the Bank's comparative financial statements for its year ended October 31, 2007, as contained in the Annual Report. 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"

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;
   - the *Canada Deposit Insurance Corporation Act*; 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 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 and related quarterly results press releases and periodically assess the adequacy of these procedures;
- 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 semi-annual 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; 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 the annual audit plan, annual budgets, resources and 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 periodically the Charter for the Audit Department and the mandate for the Chief Internal Auditor;
- review the annual performance review 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 report 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 service 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 26, 2007.

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Management's Discussion and Analysis

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Earning per share (diluted)

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Forward-looking statements

Our public communications often include oral or written forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the 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; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; operational and reputational risks; 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 56 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 and on the EDGAR section of the SEC's website at www.sec.gov.

December 18, 2007

2007 Financial Highlights

As at and for the years ended October 31	**2007**	2006	2005	2004	2003
Operating results ($ millions)					
Net interest income	**7,098**	6,408	5,871	5,701	5,968
Net interest income (TEB [1])	**7,629**	6,848	6,197	5,975	6,246
Total revenue	**12,490**	11,208	10,400	10,021	9,983
Total revenue (TEB[1])	**13,021**	11,648	10,726	10,295	10,261
Provision for credit losses	**270**	216	230	390	893
Non-interest expenses	**6,994**	6,443	6,043	5,862	5,731
Provision for income taxes	**1,063**	872	847	786	777
Provision for income taxes (TEB [1])	**1,594**	1,312	1,173	1,060	1,055
Net income	**4,045**	3,579	3,209	2,908	2,422
Net income available to common shareholders	**3,994**	3,549	3,184	2,892	2,406
Operating performance					
Basic earnings per share ($)	**4.04**	3.59	3.19	2.87	2.38
Diluted earnings per share ($)	**4.01**	3.55	3.15	2.82	2.34
Return on equity[1] (%)	**22.0**	22.1	20.9	19.9	17.6
Productivity ratio (%) (TEB[1])	**53.7**	55.3	56.3	56.9	55.9
Net interest margin on total average assets (%) (TEB[1])	**1.89**	1.95	2.00	2.10	2.16
Balance sheet information ($ millions)					
Cash resources and securities	**118,030**	118,878	93,964	75,928	83,773
Loans and acceptances [2]	**238,685**	212,329	178,003	160,974	155,830
Total assets	**411,510**	379,006	314,025	279,212	285,892
Deposits	**288,458**	263,914	217,445	195,196	192,672
Preferred shares	**1,635**	600	600	300	300
Common shareholders' equity	**17,169**	16,947	15,482	14,685	13,814
Assets under administration	**195,095**	191,869	171,392	156,800	161,974
Assets under management	**31,403**	27,843	26,630	21,225	19,964
Capital measures					
Tier 1 capital ratio (%)	**9.3**	10.2	11.1	11.5	10.8
Total capital ratio (%)	**10.5**	11.7	13.2	13.9	13.2
Common equity to risk-weighted assets (%)	**7.8**	8.8	9.7	9.9	9.2
Tangible common equity to risk-weighted assets[1] (%)	**7.2**	8.3	9.3	9.7	8.9
Risk-weighted assets ($ millions)	**218,337**	197,010	162,799	150,549	154,523
Credit quality					
Net impaired loans[3] ($ millions)	**601**	570	681	879	1,522
General allowance for credit losses ($ millions)	**1,298**	1,307	1,330	1,375	1,475
Net impaired loans as a % of loans and acceptances[2][3]	**0.25**	0.27	0.38	0.55	0.98
Specific provision for credit losses as a % of average loans and acceptances[2]	**0.13**	0.14	0.16	0.31	0.56
Common share information					
Share price ($)					
High	**54.73**	49.80	44.22	40.00	33.70
Low	**46.70**	41.55	36.41	31.08	22.28
Close	**53.48**	49.30	42.99	39.60	32.74
Shares outstanding (millions)					
Average — Basic	**989**	988	998	1,010	1,010

Average — Diluted	**997**	1,001	1,012	1,026	1,026
End of period	**984**	990	990	1,009	1,011
Dividends per share ($)	**1.74**	1.50	1.32	1.10	0.84
Dividend yield (%)	**3.4**	3.3	3.3	3.1	3.0
Dividend payout ratio [4] (%)	**43.1**	41.8	41.4	38.4	35.3
Market capitalization ($ millions)	**52,612**	48,783	42,568	39,937	33,085
Book value per common share ($)	**17.45**	17.13	15.64	14.56	13.67
Market value to book value multiple	**3.1**	2.9	2.7	2.7	2.4
Price to earnings multiple (trailing 4 quarters)	**13.2**	13.7	13.5	13.8	13.8
Other information					
Employees[5]	**58,113**	54,199	46,631	43,928	43,986
Branches and offices	**2,331**	2,191	1,959	1,871	1,850

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

(2) Certain comparative amounts have been restated to conform with current period presentation.

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

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

(5) Amounts for prior periods have been restated to include final numbers for all new acquisitions.

overview

Financial results

Scotiabank had another year of record results in 2007 and met or exceeded all of its financial objectives. Asset growth continued to be strong, recent acquisitions in Peru, Costa Rica and Canada made a solid contribution to earnings, credit quality remained favourable and we recognized a pre-tax gain of $202 million on the global restructuring of Visa Inc. These positive impacts were partly offset by lower net interest margins, the negative impact of foreign currency translation and pre-tax losses of $191 million on structured credit instruments.

Earnings per share (diluted) were $4.01, up 13% from $3.55 in 2006. Net income available to common shareholders was a record $3,994 million, $445 million higher than last year. This strong performance resulted in a return on equity of 22.0%.

Total revenues increased 12% compared to last year. Net interest income rose 11%, as we continued to see very strong organic and acquisition-related retail loan growth, both domestically and in the international portfolio. This growth was partly offset by the negative effect of foreign currency translation, and a decline in the overall net interest margin, due primarily to higher wholesale funding costs. Other income was up 12% this year, as record credit card and wealth management revenues, higher investment banking fees and gains on the sale of non-trading securities, as well as the Visa restructuring gain, were partly offset by lower trading revenues.

Credit quality in the Bank's loan portfolios remained stable, and we continued to benefit from favourable conditions. Net impaired loans rose marginally compared to last year, while the specific provision for credit losses increased 7%. A $25 million reduction in the general allowance for credit losses was recorded during the year, compared to $60 million in 2006.

Expenses were up 9% from last year, including a positive impact from foreign currency translation. Much of the increase related to acquisitions and growth in business volumes, expenditures to support revenue initiatives, and higher performance-based compensation. Our productivity ratio, at 53.7%, improved 160 basis points compared to last year, as we continued to lead the industry. We also increased our operating leverage to 3% from 2% in 2006.

The overall tax rate was 20.3%, up from 19.2% last year, due mainly to increased earnings in higher-tax jurisdictions and a higher effective tax rate in Mexico, partly offset by higher levels of tax-exempt dividend income and the taxation of certain gains at lower rates.

Our capital position remains strong, as we continue to generate significant capital from operations. Our Tier 1 capital ratio, at 9.3%, remains well above the regulatory minimum. Our tangible common equity ratio, a key measure of capital strength, was 7.2%, down from last year due to acquisitions and strong asset growth.

Strong shareholder returns

Solid financial performance continued to drive our strong shareholder returns. Total return (including both dividends and appreciation of the price of the Bank's common shares) was 12% in 2007, as shown in Table 1. Shareholders have had positive annual returns from the Bank's shares for 13 consecutive years, the best record among Canada's major banks. Long-term returns have also been excellent. The compound annual return on the Bank's shares over the past five years has averaged 22%, and 17% over the past 10 years. We remain focused on achieving sustainable, long-term earnings growth and a high return on equity.

Table 1
Total shareholder return

For the year ended October 31	**2007**	2006	2005	2004	2003	5-yr CAGR[1]
Closing market price per common share ($)	**53.48**	49.30	42.99	39.60	32.74	**18.4%**
Dividends paid ($ per share)	**1.74**	1.50	1.32	1.10	0.84	**19.0%**
Dividends paid (%)	**3.5**	3.5	3.3	3.4	3.7	
Increase in share price (%)	**8.5**	14.7	8.6	21.0	42.7	
Total annual shareholder return (%)[2]	**12.2**	18.4	12.1	24.7	46.8	**22.2%**

(1) Compound annual growth rate (CAGR)

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

Chart 1

Return to common shareholders

We continue to outperform the S&P/TSX Composite Total Return Index by a wide margin, as shown in Chart 1 above. Our compound annual return has been nearly 70% greater than the index over the past 10 years.

Shareholders also received two quarterly dividend increases during the year. Dividends per share totalled $1.74, an increase of 16% from 2006.

Impact of foreign currency translation

The movement in foreign currency exchange rates again had a negative effect on the Bank's earnings in 2007. On average, the Canadian dollar appreciated 3% relative to the U.S. dollar, and 4% against the Mexican peso. The dollar also strengthened against the Jamaican dollar and many other currencies in which the Bank conducts its business.

Table 2
Impact of foreign currency translation

Average Exchange Rate	2007	2006	2005
U.S. dollar/Canadian dollar	**0.9088**	0.8782	0.8217
Mexican peso/Canadian dollar	**9.9679**	9.5422	9.0523
Impact on income ($ millions)	**2007 vs. 2006**	2006 vs. 2005	2005 vs. 2004
Net interest income	**$ (119)**	$ (202)	$ (164)
Other income	**(80)**	(138)	(123)
Non-interest expenses	**77**	136	95
Other items (net of tax)	**40**	51	47
Net income	**$ (82)**	$ (153)	$ (145)
Earnings per share (diluted)	**$ (0.08)**	$ (0.15)	$ (0.14)
Impact by business line ($ millions)			
International Banking	**$ (37)**	$ (65)	$ (62)
Scotia Capital	**$ (19)**	$ (35)	$ (34)
Domestic Banking	**$ (4)**	$ (8)	$ (9)
Other	**$ (22)**	$ (45)	$ (40)

Changes in the average exchange rates affected net income, as shown in Table 2.

We will continue to take appropriate action 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 61.

Impact of acquisitions

The Bank made a number of acquisitions in 2006 and 2007 which contributed to growth in Canada and in our international operations. The impact on selected income statement categories is shown in Table 3.

Table 3
Impact of acquisitions

($ millions)	2007	2006
Net interest income	**$ 464**	$ 173
Other income	**263**	118
Non-interest expenses	**(416)**	(191)
Other items (net of tax)	**(117)**	(46)
Net income	**$ 194**	$ 54
Earnings per share (diluted)	**$ 0.19**	$ 0.05

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 2007 was $531 million versus $440 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.

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 implementation of the new accounting standards for financial instruments in the first quarter of 2007 resulted in certain unrealized gains and losses being reflected in a new component of shareholders' equity. The Bank calculates its return on equity using average common shareholders' equity, including all new 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 plus non-controlling interest in subsidiaries, less preferred shares, unrealized gains/losses on available-for-sale securities and cash flow hedges, goodwill and other 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 Superintendent of Financial Institutions Canada.

group financial performance

Total revenue

Total revenue (on a taxable equivalent basis) was $13,021 million in 2007, an increase of $1,373 million or 12% from the prior year, despite the negative impact of $199 million due to foreign currency translation, as the Canadian dollar continued to appreciate against most currencies in which the Bank operates. This increase in revenues reflected the contributions from acquisitions and broad-based organic growth across all business lines. Domestic Banking revenue grew by 9% over last year. Despite the negative impact of foreign currency translation, International Banking revenues rose 23%, reflecting the full-year impact of acquisitions in Peru and Costa Rica, as well as strong growth in Mexico and the Caribbean. In Scotia Capital, growth in corporate and investment banking revenues was partially offset by lower trading revenues. Group Treasury had higher gains on the sale of non-trading securities.

Net interest income

Net interest income (on a taxable equivalent basis) was $7,629 million in 2007, up $781 million or 11% over last year, despite a negative impact of $119 million due to foreign currency translation. Overall, strong asset growth more than offset the compression in the net interest margin.

Chart 2
Net interest income by business line

Table 4
Net interest income and margin[1]

($ millions, except percentage amounts)	**2007**	2006	2005	2004
Average assets	**403,500**	350,700	309,400	284,000
Net interest income[1]	**7,629**	6,848	6,197	5,975
Net interest margin	**1.89%**	1.95%	2.00%	2.10%

(1) Taxable equivalent basis

The growth in average assets of $52 billion or 15% was mainly in business and government lending ($14 billion or 23%), residential mortgages ($14 billion or 17%) and derivative securities ($7 billion or 20%). All business segments contributed to the strong asset growth.

Domestic Banking's average assets grew by $17 billion (primarily in mortgages), aided by the full-year impact of the acquisition of the mortgage business of Maple Financial Group.

International Banking's asset growth of $10 billion or 19% was driven in part by the full-year impact of acquisitions in Peru and Costa Rica, as well as strong organic growth across all regions, particularly credit cards and mortgages in Mexico and the Caribbean, and commercial loans in Asia.

Scotia Capital's average assets grew $22 billion, primarily from a $14 billion increase in trading assets, and solid growth of $5 billion in corporate loans and acceptances.

The Bank's net interest margin (net interest income as a percentage of average assets) was 1.89% in 2007, down from 1.95% last year. The decline was due to a rise in wholesale funding costs, as well as a change in asset mix, mainly from strong growth in lower yielding, but lower risk, Canadian residential mortgages.

On a business line basis, the Domestic Banking margin narrowed due to the very strong volume growth in lower-spread residential mortgages, and higher wholesale funding rates. Some of this margin compression was offset in Group Treasury (included in the Other segment), as interest rate risk is managed at an all-bank level.

The margin in Scotia Capital widened as a result of a rise in tax-exempt dividend income, and increased interest recoveries in corporate lending. This was partly offset by significant growth in trading assets.

International Banking's margin widened slightly, primarily in Latin America from the full-year impact of our acquisitions in Peru, and higher margins in Mexico and Asia.

Outlook

Net interest income is expected to increase with the continued organic and acquisition-driven growth in assets and deposits across all business segments. We are expecting the growth rate for Canadian retail assets to moderate, consistent with the slowing of the Canadian economy. The Bank's net interest margin will likely remain under pressure, with the continuing market uncertainty.

Other income

Other income was $5,392 million in 2007, an increase of $592 million or 12% from 2006, despite a reduction of $80 million from the impact of foreign currency

translation. Gains of $202 million recognized on the global Visa restructuring were mostly offset by losses of $191 million on structured credit instruments, composed of a reduction in trading revenues and writedowns of non-trading securities. Acquisitions accounted for approximately $145 million or 25% of the total growth.

Chart 3
Many sources of other income

Table 5
Average balance sheet and interest margin[1]

Taxable equivalent basis[2] For the fiscal years ($ billions)	2007 **Average balance**	2007 **Average rate**	2006 Average balance	2006 Average rate
Assets				
Deposits with banks	**$ 25.4**	**4.38%**	$ 21.0	4.20%
Securities	**98.0**	**5.32**	87.7	5.21
Securities purchased under resale agreements	**25.8**	**4.87**	23.6	4.67
Loans:				
Residential mortgages	**95.4**	**5.47**	81.8	5.25
Personal and credit cards	**39.9**	**8.88**	36.6	8.17
Business and government	**77.3**	**6.76**	62.8	6.83
	212.6	**6.58**	181.2	6.39
Total earning assets	**361.8**	**5.96**	313.5	5.78
Customers' liability under acceptances	**10.8**	**—**	9.0	—
Other assets	**30.9**	**—**	28.2	—
Total assets	**$ 403.5**	**5.34%**	$ 350.7	5.17%
Liabilities and shareholders' equity				
Deposits:				
Personal	**$ 96.1**	**3.29%**	$ 88.4	3.00%
Business and government	**154.8**	**3.98**	126.8	3.71
Banks	**31.8**	**4.84**	28.5	4.31
	282.7	**3.84**	243.7	3.52
Obligations related to securities sold under repurchase agreements	**30.9**	**5.15**	28.5	4.98
Subordinated debentures	**2.1**	**5.42**	2.4	5.50
Capital instrument liabilities	**0.8**	**7.10**	0.8	7.10
Other interest-bearing liabilities	**31.5**	**4.21**	25.4	4.27
Total interest-bearing liabilities	**348.0**	**4.01**	300.8	3.75
Other liabilities including acceptances	**36.3**	**—**	33.3	—

Shareholders' equity	**19.2**	**—**	16.6	—
Total liabilities and equity	**$ 403.5**	**3.45%**	$ 350.7	3.22%
Interest margin		**1.89%**		1.95%

(1) Average of daily balances.

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

Table 6
Other income

For the fiscal years ($ millions)	2007	2006	2005	2004	2007 versus 2006
Card revenues	**$ 366**	$ 307	$ 251	$ 231	**19%**
Deposit and payment services	**817**	766	701	646	**7**
Mutual funds	**296**	241	193	171	**23**
Investment management, brokerage and trust services	**760**	666	600	504	**14**
Credit fees	**530**	530	542	583	**—**
Trading revenues	**450**	637	594	476	**(29)**
Investment banking	**737**	659	680	648	**12**
Net gain on securities, other than trading	**488**	371	414	477	**31**
Other	**948**	623	554	584	**52**
Total other income	**$ 5,392**	$ 4,800	$ 4,529	$ 4,320	**12%**
Percentage increase (decrease) over previous year	**12%**	6%	5%	8%	

Card revenues were a record $366 million in 2007, an increase of 19% from last year. International card revenues increased by 34% due to the full-year impact of acquisitions in Peru and Costa Rica, and the purchase of a credit card portfolio in the Dominican Republic. As well, there was strong growth in transaction volumes in Mexico and the Caribbean, driven by focused customer acquisition strategies and marketing campaigns. Domestic card revenues were up 9% from 2006 levels, due mainly to higher transaction volumes.

Revenues from deposit and payment services, which represent revenues earned from retail, commercial and corporate customers, grew by 7% to $817 million in 2007. Domestic revenues were 5% higher than last year due to both pricing changes and higher volumes, in part reflecting growth in new accounts. International revenues increased by 10%, mainly from the full-year impact of the acquisitions in Peru.

GROUP FINANCIAL PERFORMANCE

Mutual fund fees were a record $296 million in 2007, an increase of 23% from 2006. This reflected higher average balances, which grew by 17% in Canada, resulting from record net fund sales, particularly in the longer term funds which earn higher management fees, as well as market appreciation.

Revenues from investment management, brokerage and trust services were $760 million in 2007, an increase of $94 million or 14% from last year. Retail brokerage commissions rose to a record $554 million. ScotiaMcLeod full-service commissions increased by 11%, due to higher Partnership Plus revenues, managed account fees and trailer fees. ScotiaMcLeod Direct Investing commissions also grew by 10%, due mainly to higher customer trading volumes. As well, retail brokerage commissions in International Banking were 52% higher, reflecting strong growth in Mexico, and the impact of acquisitions in Peru, Costa Rica and Jamaica. Investment management fees were 24% higher, reflecting continued growth in assets under management by Scotia Cassels.

Credit fees of $530 million were unchanged from last year. International Banking credit fees increased 8%, mainly reflecting the full-year impact of acquisitions in Peru. There were also higher acceptance fees in Canada from both corporate and commercial customers. However, these increases were offset by a decline in credit fees in the United States, resulting from lower loan origination fees and the impact of foreign currency translation.

Trading revenues were $450 million in 2007, a decrease of $187 million or 29% from last year. Derivatives trading declined by $106 million, including a loss of $115 million on structured credit revenues from equity and fixed income trading were only partially offset by record revenues from both foreign exchange and precious metals trading.

Investment banking revenues were $737 million in 2007, an increase of $78 million or 12% over last year. Underwriting fees rose by $43 million or 13%, due to higher M&A and new issue fees. Institutional brokerage fees were 2% higher than 2006. Non-trading foreign exchange revenues were $33 million above 2006 levels, with growth in both Domestic Banking and International Banking, the latter due mainly to the impact of acquisitions in Peru and Jamaica.

The net gain on the sale of non-trading securities was $488 million in 2007, an increase of $117 million or 31% from last year. Gains on equity investments were partially offset by write-downs of $76 million on structured credit instruments (which includes $20 million on non-Bank asset-backed commercial paper (ABCP)).

Other revenues were $948 million in 2007, an increase of $325 million from last year, due mainly to a $202 million gain on the global Visa restructuring, the impact of acquisitions, and a $43 million gain on the sale of our bond index business.

Table 7
Trading revenue

Taxable equivalent basis[1] For the fiscal years ($ millions)	**2007**	2006	2005	2004
Reported in:				
Other income	**$ 450**	$ 637	$ 594	$ 476
Net interest income	**519**	394	340	287
Total trading revenue	**969**	1,031	934	763
By trading products:				
Securities trading	**65**	145	175	112
Foreign exchange and precious metals trading	**323**	301	295	306
Derivatives trading	**581**	585	464	345
Total trading revenue	**$ 969**	$ 1,031	$ 934	$ 763
% of total revenues (net interest income plus other income)	**7%**	9%	9%	7%

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

Table 8
Non-interest expenses and productivity

For the fiscal years ($ millions)	**2007**	2006	2005	2004	**2007 versus 2006**
Salaries	**$ 2,315**	$ 2,100	$ 1,963	$ 1,933	**10%**

Performance-based compensation	**1,017**	936	880	817	**9**
Stock-based compensation	**133**	164	140	174	**(19)**
Pensions and other employee benefits	**518**	568	505	528	**(9)**
Total salaries and employee benefits	**3,983**	3,768	3,488	3,452	**6**
Premises and technology	**1,353**	1,214	1,148	1,139	**11**
Communications	**300**	276	255	248	**9**
Advertising and business development	**311**	232	232	210	**34**
Professional	**227**	174	186	163	**30**
Business and capital taxes	**143**	133	147	142	**8**
Other	**677**	646	587	508	**5**
Total non-interest expenses	**$ 6,994**	$ 6,443	$ 6,043	$ 5,862	**9%**
Productivity ratio (TEB)[1]	**53.7%**	55.3%	56.3%	56.9%	

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

Outlook

We expect increases in most of the retail-related revenue categories, reflecting continued growth in transaction and fee-based revenues in both Domestic and International. It is expected that trading and investment banking revenues will continue to be challenged until the uncertainty in the financial markets subsides. The extent of the growth in other income will also be affected by the volatility in the Canadian dollar.

Non-interest expenses

Non-interest expenses were $6,994 million in 2007, an increase of $551 million or 9% from last year, including a benefit from the positive impact of foreign currency translation of $77 million. Recent acquisitions accounted for approximately $225 million or 40% of the growth in non-interest expenses.

Salaries and employee benefits were $3,983 million in 2007, up $215 million or 6% from last year, including the favourable impact of $34 million due to foreign currency translation.

Chart 4
Expenses well controlled

Salaries increased 10%, reflecting an increase in branches and staffing in Canada to support growth initiatives, as well as the impact of acquisitions, branch openings in Mexico and more sales and service staff in International Banking. Performance-based compensation was $81 million or 8% higher than last year, reflecting stronger results in most business lines. This was partially offset by lower stock-based compensation, due mainly to a smaller increase in the Bank's common share price during the year. Pension and other employee benefits declined by $50 million, due primarily to lower pension costs, as pension plan valuations were favourably impacted by solid investment returns and a higher discount rate for the pension liability. This decrease was partly offset by the impact of acquisitions.

Premises and technology expenses were $1,353 million in 2007, an increase of $139 million or 11% from last year. The higher premises costs reflected both acquisitions and new branches (35 in Canada, 86 in Mexico). Technology expenses increased by $54 million or 10%, mainly for a variety of new projects in Canada and Mexico to support business growth initiatives, as well as a new data centre in the Caribbean.

Communications expenses rose $24 million, or 9% year over year to $300 million, reflecting the impact of acquisitions, business volume growth and new branches.

Advertising and business development expenses were $311 million in 2007, an increase of $79 million or 34% over last year, reflecting a greater investment in brand awareness, product programs and customer acquisition through advertising and sponsorships in Canada, the Caribbean and Mexico.

Professional fees rose by $53 million or 30% to $227 million, mainly due to higher fees for litigation, and higher consulting fees related to the evaluation of acquisition opportunities and other growth initiatives.

Other expenses were $677 million in 2007, an increase of $31 million or 5% from last year, largely due to the impact of acquisitions, and the reduction in last year's expenses from a Value Added Tax (VAT) recovery of $51 million in Mexico.

Chart 5
Industry-leading productivity

Our productivity ratio — a measure of efficiency in the banking industry — was 53.7% for the year and remained better than our target of 58%. The ratio improved from 55.3% last year, as we continued to have positive operating leverage, with 12% revenue growth versus 9% expense growth.

Outlook

We will continue to invest in acquisitions and growth initiatives to increase our customer base. At the same time, cost control will remain a core discipline. Discretionary spending on growth initiatives is continually evaluated, and will be prudently managed. The 2008 target for our productivity ratio has been reduced to 57% or lower, and we continue to strive for positive operating leverage.

Taxes

The provision for income taxes recorded in income was $1,063 million in 2007, an increase of 22% over last year. This largely reflected: the 15% growth in pre-tax income; a higher effective tax rate in Mexico, as previously unrecognized tax loss carryforwards were fully utilized during the year; and the impact of adjustments to the future tax asset, reflecting tax rate reductions in Canada. The Bank's overall effective tax rate for the year was 20.3%, up from 19.2% last year.

Chart 6
Direct and indirect taxes

Outlook

The Bank's consolidated effective tax rate for 2008 is expected to range from 20% to 23%.

Non-controlling interest

The deduction for non-controlling interest in subsidiaries was $118 million in 2007, an increase of $20 million from 2006, due primarily to the full-year impact of the acquisitions in Peru.

GROUP FINANCIAL PERFORMANCE

Credit quality

Provision for credit losses

In 2007, the total provision for credit losses was $270 million, up from $216 million last year.

Chart 7
Credit losses

Specific provision for credit losses

The specific provision for credit losses was $295 million, up $19 million from 2006, largely reflecting portfolio growth.

Domestic Banking provisions were up $16 million from last year, with higher retail provisions in line with growth in the portfolio, partially offset by lower provisions in the commercial portfolio. Specific provisions of $101 million in the International Banking portfolios were up $41 million from last year, with higher retail provisions due to the impact of acquisitions and portfolio growth, partially offset by net recoveries in the commercial portfolios. Scotia Capital had net recoveries of $101 million in 2007 versus net recoveries of $63 million in 2006. Recoveries in 2007 were realized primarily in the United States.

General provision for credit losses

The general allowance for credit losses was reduced by $25 million in the Consolidated Statement of Income in 2007. This decline follows reductions of $60 million in 2006 and $45 million in 2005.

Impaired loans

Net impaired loans, after deducting the specific allowance for credit losses, were $601 million at October 31, 2007, an increase of $31 million from a year ago. There was an increase of $153 million in International Banking, partially offset by declines of $106 million in Scotia Capital and $16 million in Domestic Banking.

Chart 8
Net impaired loan ratio

As shown in chart 8, net impaired loans as a percentage of loans and acceptances were 0.25% as at October 31, 2007, compared to 0.27% a year ago.

Portfolio review

Corporate and commercial

Scotia Capital's credit performance remained strong on a year-over-year basis, reflecting the favourable credit conditions prevailing for most of 2007. Year over year, gross impaired loans in Scotia Capital's U.S. portfolio fell by $108 million or 91% to $11 million. Gross impaired loans also declined in Europe by $86 million or 74% to $30 million, and remained stable in Canada at $18 million over the same period. The improvement in gross impaired loans is attributed to a significant amount of loans returning to performing status, as well as the impact of foreign currency translation.

Scotia Capital had a net loan loss recovery of $101 million in 2007 compared to $63 million in 2006. Recoveries were concentrated primarily in Scotia Capital's U.S. region, with the Canadian and European regions reporting lower net recoveries year over year.

The credit quality of the Domestic commercial loan portfolio remained strong, with gross impaired loans decreasing by $66 million to $197 million. Provisions for credit losses declined compared to last year.

In International commercial banking, the credit quality of the portfolio also remained stable. Gross impaired loans decreased by $98 million or 17% to $471 million, compared to portfolio growth of 3% over the prior year. The reduction was due primarily to the writeoff of fully provisioned loans, as well as foreign currency translation.

Domestic retail

The overall credit quality of the consumer portfolio in Canada continues to be excellent. Gross impaired loans in the retail portfolio increased by $17 million or 5% to $391 million, compared to portfolio growth of 14%.

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 car. 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 residential real estate. Currently, 61% of the ScotiaLine line of credit and ScotiaLine VISA portfolios are secured. Reportable delinquency increased marginally year over year, but the portfolio remains stable. (See Chart 9)

Chart 9
Low delinquency in Canadian retail portfolio

The provision for credit losses in the Domestic retail portfolio was $274 million, up $45 million or 20% from last year. The provision for credit losses as a

Table 9 Impaired loans by business line

As at October 31 ($ millions)	2007 Net	2007 Allowance for credit losses	2007 Gross	Gross Impaired Loans 2006	2005	2004	2003
Domestic							
Retail	**$ 139**	**$ (252)**	**$ 391**	$ 374	$ 311	$ 267	$ 292
Commercial	**90**	**(107)**	**197**	263	201	170	184
	229	**(359)**	**588**	637	512	437	476
International[1]							
Mexico	**(13)**	**(201)**	**188**	213	190	223	398
Caribbean and Central America	**302**	**(95)**	**397**	375	369	324	346
South America	**55**	**(230)**	**285**	357	101	114	168
Asia and Europe	**16**	**(11)**	**27**	35	72	137	205
	360	**(537)**	**897**	980	732	798	1,117
Scotia Capital							
Canada	**2**	**(16)**	**18**	18	25	52	199
United States	**4**	**(7)**	**11**	119	331	701	1,084
Europe	**6**	**(24)**	**30**	116	220	212	386
	12	**(47)**	**59**	253	576	965	1,669
Gross impaired loans			**1,544**	1,870	1,820	2,200	3,262
Allowance for credit losses — specific and country risk[1]		**(943)**		(1,300)	(1,139)	(1,321)	(1,740)
	$ 601			$ 570	$ 681	$ 879	$ 1,522
Allowance for credit losses — general	**(1,298)**	**(1,298)**		(1,307)	(1,330)	(1,375)	(1,475)
Net impaired loans after general allowance	**$ (697)**			$ (737)	$ (649)	$ (496)	$ 47
Gross impaired loans as a % of total allowance for credit losses and shareholders' equity	**7.3%**			9.3%	9.8%	12.4%	18.8%
Net impaired loans[2] as a % of loans and acceptances	**0.25%**			0.27%	0.38%	0.55%	0.98%
Specific allowance[1] for credit losses as a % of gross impaired loans	**61%**			70%	63%	60%	53%

(1) Includes designated emerging market gross impaired loans and offsetting country risk allowance of $21 in 2003.

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

Table 10
Specific provisions for credit losses by business line

For the fiscal years ($ millions)	2007	2006	2005	2004	2003
Domestic					
Retail	**$ 274**	$ 229	$ 225	$ 207	$ 204
Commercial	**21**	50	49	110	68
	295	279	274	317	272
International					
Mexico	**68**	27	34	6	2
Caribbean and Central America	**48**	15	23	63	86
South America[1]	**(11)**	14	15	(12)	(33)
Asia and Europe	**(4)**	4	(2)	13	18

	101	60	70	70	73
Scotia Capital					
Canada	**—**	(6)	(12)	(15)	124
United States	**(91)**	(41)	(93)	54	270
Europe	**(10)**	(16)	34	67	155
	(101)	(63)	(71)	106	549
Other	**—**	—	2	(3)	(1)
Total	**$ 295**	$ 276	$ 275	$ 490	$ 893

(1) Includes reversals of $64 in 2003 relating to specific provisions of $454 taken in 2002 with respect to Argentina.

Table 11
Provisions for credit losses as a percentage of average loans and acceptances

For the fiscal years (%)	**2007**	2006	2005	2004	2003
Domestic					
Retail	**0.22%**	0.20%	0.22%	0.23%	0.26%
Commercial	**0.09**	0.22	0.23	0.53	0.32
	0.19	0.20	0.22	0.28	0.27
International[1]	**0.25**	0.18	0.25	0.26	0.26
Scotia Capital[2]	**(0.33)**	(0.25)	(0.31)	0.42	1.60
Weighted subtotal — specific provisions	**0.13**	0.14	0.16	0.31	0.56
General provision	**(0.01)**	(0.03)	(0.02)	(0.05)	—
Weighted total	**0.12%**	0.11%	0.13%	0.25%	0.56%

(1) Includes reversals of $64 in 2003 relating to specific provisions of $454 taken in 2002 with respect to Argentina.

(2) Corporate banking only.

percentage of average loans increased by two basis points year over year to 0.22%, but continues to be at the low end of the five-year range.

International retail

Credit quality remains within acceptable risk tolerance levels. Moderate increases in delinquency and gross impaired loans relate primarily to the growth in the consumer portfolios, including growth in portfolios that exhibit higher net interest margins and delinquency rates, such as credit cards. Provisions for credit losses have increased year over year, largely as a result of significant loan growth in the retail portfolios and a change in geographical mix towards Latin America.

Risk diversification

The Bank's exposures to various countries and types of borrowers are diversified. (See Charts 10 and 11, and Tables 27 and 32 on pages 73 and 76). Chart 10 shows loans and acceptances by geography. Ontario represents the largest Canadian exposure, at 40% of the total. Outside of Canada, the United States has the largest concentration, with 7% of the total.

Chart 10
Well diversified in Canada, and internationally...

Chart 11
...and in household and business lending

Chart 11 shows loans and acceptances by type of borrower. Excluding loans to households, the largest concentrations were in: financial services (7.4%); wholesale and retail (5.0%); and real estate and construction (3.7%).

The Bank actively monitors industry concentrations. Currently, the North American automotive industry, forestry and the building materials sectors are being closely managed and monitored. The Bank does not have significant concerns with the level of its exposure to any of these sectors. 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 2007, loan sales totaled $320 million, compared to $330 million in 2006. The wholesale food production industry had the largest volume of loan sales in 2007.

At October 31, 2007, credit derivatives used to mitigate exposures in the portfolios totalled $1,089 million (notional amount), compared to $1,420 million at October 31, 2006. The industries with significant protection purchased include the media and oil and gas sectors.

Excluding mark-to-market adjustments, the current annualized cost of the credit derivatives outstanding at October 31, 2007, used to mitigate exposures in the loan portfolios is $5.2 million.

Other exposures

U.S. sub-prime mortgages

The Bank has no direct exposure to U.S. sub-prime mortgages. Our indirect exposure to this asset class is nominal.

Canadian non-bank asset-backed commercial paper

For those conduits subject to the Montreal Accord, the Bank has provided liquidity facilities totaling $370 million. As at October 31, 2007 drawdowns on these facilities aggregated $88 million.

The fair value of the Bank's holdings of commercial paper and floating rate notes issued by these conduits was $187 million. In the fourth quarter, the Bank recorded a loss of $20 million on these holdings.

Collateralized debt obligations and collateralized loan obligations

The Bank's investments in these types of instruments totaled $1.2 billion at October 31, 2007. Of this amount, $516 million was acquired at fair value through the Bank's purchase of Dundee Bank of Canada. The majority of these instruments are highly rated.

Scotia Capital structures and trades synthetic collateralized debt obligations and other credit derivatives. The collateralized debt obligations are referenced to corporate and sovereign obligors.

Structured Investment Vehicles

As at October 31, 2007 the fair value of the Bank's investments in Structured Investment Vehicles (SIVs) was $125 million. During the fourth quarter the Bank recorded a loss of $56 million on these investments. The Bank does not sponsor, manage or provide liquidity support to SIVs.

Outlook

Provisions for credit losses are expected to increase moderately in 2008, given the growth in our domestic and international retail portfolios, and the impact of a softening U.S. economy. In addition, loan loss recoveries are expected to decline from the high levels realized in prior years.

Fourth quarter review

Net income available to common share-holders was $938 million in the fourth quarter, an increase of $48 million or 5% from the same quarter last year, despite the negative impact of $53 million from foreign currency translation. The year-over-year increase reflected the impact of several acquisitions, as well as wide-spread organic growth in retail volumes and other income in both Domestic and International Banking, and higher securities gains, partly offset by lower trading revenues. Net income available to common shareholders was $78 million below last quarter's near-record level. The decrease reflected lower trading revenues, the negative impact of $37 million from foreign currency translation, and higher expenses.

In the fourth quarter of 2007, the Bank recognized a gain of $202 million ($163 million after tax) on its domestic and international interests in Visa Inc., which was formed by the reorganization of Visa Canada, Visa USA and Visa International. Mostly offsetting this gain were losses on structured credit instruments totaling $191 million ($133 million after tax).

Total revenue (on a taxable equivalent basis) was $3,294 million in the fourth quarter, an increase of $295 million or 10% over the same quarter last year, notwithstanding a negative foreign currency translation impact of $136 million. Quarter over quarter, total revenue fell $8 million.

Net interest income (on a taxable equivalent basis) was $1,932 million in the fourth quarter, an increase of $149 million or 8% over the same quarter last year, and $19 million above the third quarter. These increases occurred notwithstanding the negative impact of foreign currency translation of $78 million over the same quarter last year and $46 million compared to the third quarter.

Compared to the same quarter a year ago, the increase in net interest income was as a result of the solid growth in average assets of $34 billion or 9%. Asset volumes for the quarter remained relatively constant.

The Bank's net interest margin was 1.87% in the fourth quarter, down two basis points compared to last year, primarily from a larger mark-to-market loss on financial instruments and growth in lower yielding, lower risk mortgages, partially offset by higher tax-exempt dividend income. Quarter over quarter, the Bank's net interest margin rose by one basis point.

Other income was $1,362 million in the fourth quarter, an increase of $146 million or 12% from the same quarter last year, despite a negative $58 million impact from foreign currency translation. The gains of $202 million on the global Visa restructuring and $43 million on the sale of the bond index business were mostly offset by losses aggregating $191 million on structured credit instruments. This comprised a reduction in trading revenues of $115 million and writedowns of non-trading securities of $76 million (including $20 million related to ABCP). The remaining increase came from widespread growth in retail products and services, as well as higher gains from the sale of non-trading securities, partially offset by lower trading and underwriting revenues.

Quarter over quarter, other income declined by $27 million, due primarily to the gains and losses noted above, as well as the negative $41 million impact from foreign currency translation.

The provision for credit losses was $95 million in the fourth quarter, compared to $32 million in the same period last year and $92 million in the previous quarter. Last year's provision included a reduction of $60 million in the general allowance for credit losses.

Scotia Capital had net recoveries of $10 million in the fourth quarter, compared to a provision of $26 million in the fourth quarter of last year and net recoveries of $10 million in the previous quarter. The net recovery in the current quarter related primarily to provision reversals in the U.S. portfolio. Credit losses of $78 million in the Domestic Banking portfolios were up from $58 million in the same quarter last year. The year-over-year increase arose from higher retail provisions in line with strong growth in retail lending volumes.

International Banking's provisions for credit losses were $27 million in the fourth quarter, compared to $8 million in the same period last year and $25 million in the prior quarter. Both the year-over-year and quarter-over-quarter increases are due mainly to higher provisions in the retail portfolios, offset partially by higher net recoveries in the commercial portfolio.

Non-interest expenses were $1,792 million in the fourth quarter, an increase of $84 million or 5% over the same quarter last year, notwithstanding the benefit of $52 million from foreign currency translation. Premises expenses were up 14% due to branch openings in Canada and Mexico, as well as recent acquisitions, and salaries increased reflecting normal growth, branch expansion and recent acquisitions. Technology, advertising and professional fees also rose, due primarily to new projects and initiatives to drive revenue growth. These were in part offset by lower pension and benefit costs.

Quarter over quarter, non-interest expenses grew $40 million, due mainly to higher technology and advertising costs, professional fees and salaries, partially offset by lower performance-based compensation and benefits, and the positive impact of $30 million from foreign currency translation.

The Bank's effective tax rate was 17.1% in the fourth quarter, a 90 basis point decrease from the same quarter last year and

470 basis points below the previous quarter. These declines were due mainly to higher income from tax-exempt securities, and a lower tax rate on the Visa gain. These were partly offset by a $50 million provision relating to an outstanding tax matter.

The deduction for non-controlling interest in subsidiaries was $33 million for the quarter, up $5 million from the same period last year, and $4 million from last quarter, due mainly to higher levels of earnings in less than wholly owned subsidiaries (primarily Peru).

Summary of quarterly results

The Bank's results in each quarter this year were higher than those in the same quarters of 2006. Revenues were higher in each of the quarters of 2007. Positive factors were the contribution from acquisitions, continued solid organic retail asset growth in Canada, strong local currency asset growth in International Banking, as well as broad-based growth in other income. On the negative side, earnings over the past eight quarters were affected by the appreciation of the Canadian dollar, margin compression and higher expenses due to acquisitions and spending on initiatives to drive future revenue growth. An eight-quarter trend in net income and other selected information is provided on page 83.

group financial condition

Balance sheet

Assets

The Bank's total assets at October 31, 2007, were $412 billion, up $33 billion or 9% from last year, after a $26 billion negative impact from foreign currency translation, resulting from the stronger Canadian dollar. The increase was due primarily to growth in retail and commercial loans.

Securities

Securities declined by $7 billion from last year. Trading securities declined $3 billion, due almost entirely to the impact of foreign currency translation. Available-for-sale securities were down $4 billion, as growth in the underlying portfolio was more than offset by both the deconsolidation of a variable interest entity that was restructured during the year, and the negative impact of foreign currency translation.

Partly offsetting these declines was an increase of $1 billion for the initial recognition of available-for-sale securities at their fair value in accordance with the new financial instruments accounting standards adopted in 2007. The offsetting amount, net of taxes, was included in accumulated other comprehensive income within shareholders' equity (see Changes in Accounting Policies on page 72).

As at October 31, 2007, the unrealized gains on available-for-sale securities were substantial at $977 million (after related derivative and other hedge amounts), but declined $119 million (before hedging) from the prior year, due mainly to gains realized during the year, the impact of foreign currency translation, and a reduction in the value of certain debt securities. A breakdown of the unrealized gains on available-for-sale securities (net of hedges) is shown in Table 45 on page 82.

Loans

The Bank's loan portfolio grew $24 billion or 12% from last year, despite a negative impact of $11 billion due to foreign currency translation. Domestic residential mortgages led this growth with a $16 billion increase, before securitization of $4 billion, largely from market share gains as well as the continued demand arising from the strong domestic housing market. Personal loans were up $3 billion from last year, with $1 billion due to the popularity of the domestic ScotiaLine product.

Chart 12
Loan portfolio

Business and government loans increased $9 billion from last year, or $18 billion before the impact of foreign currency translation. Loans in Scotia Capital were up $6 billion, primarily to support trading operations. Domestic experienced growth of $2 billion. In International Banking, business and government loans increased in most locations despite the negative impact of foreign currency translation, with Asia in particular reflecting net growth of $2 billion.

Table 12

Condensed Balance Sheet

As at October 31 ($ billions)	**2007**	2006	2005	2004	2003
Assets					
Cash resources	**$ 29.2**	$ 23.4	$ 20.5	$ 17.1	$ 20.6
Securities	**88.8**	95.5	73.5	58.8	63.2
Securities purchased under resale agreements	**22.5**	25.7	20.6	17.9	22.7
Loans	**227.2**	202.8	170.4	153.9	149.0
Other	**43.8**	31.6	29.0	31.5	30.4
Total assets	**$ 411.5**	$ 379.0	$ 314.0	$ 279.2	$ 285.9
Liabilities and shareholders' equity					
Deposits	**$ 288.5**	$ 263.9	$ 217.4	$ 195.2	$ 192.7
Obligations related to securities sold under repurchase agreements	**28.1**	33.5	26.0	19.4	28.7
Other liabilities	**73.9**	61.0	51.1	44.7	45.2
Subordinated debentures	**1.7**	2.3	2.6	2.6	2.7
Capital instrument liabilities	**0.5**	0.8	0.8	2.3	2.5
Total liabilities[1]	**$ 392.7**	$ 361.5	$ 297.9	$ 264.2	$ 271.8
Shareholders' equity	**$ 18.8**	$ 17.5	$ 16.1	$ 15.0	$ 14.1
Total liabilities and shareholders' equity	**$ 411.5**	$ 379.0	$ 314.0	$ 279.2	$ 285.9

Liabilities

Total liabilities were $393 billion as at October 31, 2007, an increase of $32 billion or 9% from last year, despite the negative $28 billion impact due to foreign currency translation. Deposits grew $25 billion and derivative instrument liabilities were up $12 billion. The latter increase was similar to the change in the derivative instrument assets. Partially offsetting this increase was a decline in obligations related to repurchase agreements, due in part to foreign currency translation.

Chart 13
Deposits

Deposits

Total deposits grew` $25 billion or 9% from last year, net of a $20 billion negative impact due to foreign currency translation. Personal deposits increased $7 billion, led by $3 billion growth in domestic personal GICs. International

experienced modest increases in personal deposits across most regions. Business and government deposits were up $20 billion, notwithstanding the impact of foreign currency translation, primarily to fund the Bank's strong asset growth in 2007.

Shareholders' equity

Total shareholders' equity rose $1 billion in 2007. The increase was due primarily to strong internal capital generation of $2 billion, the issuance of $1 billion non-cumulative preferred shares during the year and the change in accounting standards for financial instruments, which resulted in after-tax fair value adjustments of approximately $1 billion relating primarily to available-for-sale securities. This growth in capital was negatively impacted by the strong appreciation of the Canadian dollar against most currencies. This resulted in unrealized foreign currency translation losses on the Bank's net investments in foreign subsidiaries of $2 billion during the year, net of foreign currency gains on related hedges, and taxes of $427 million.

Outlook

For 2008, we are expecting somewhat slower growth in retail assets in Canada, in line with reduced economic growth. We also anticipate some growth in our commercial and corporate portfolios. Outside Canada, growth in local currency assets in most international operations is expected to continue, though asset growth levels may moderate with slower global economic growth.

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.

Through dynamic capital management, the Bank aims to achieve three major objectives: exceed regulatory and internal capital targets, maintain strong credit ratings and provide Scotiabank shareholders with enhanced returns.

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 strategic capital plan. Senior executive management oversees the capital management process of the Bank, with governance over significant capital decisions provided mainly through the Liability Committee. The Bank's Finance, Treasury and Global Risk Management groups take a co-ordinated approach to implementing the Bank's capital strategy.

Capital utilization

The Bank deploys capital to support sustainable, long-term revenue and net income growth. This business growth can be organic, by attracting new customers, increasing cross-sell to existing customers, adding new products and enhancing sales productivity, or it can come from the acquisition of businesses or portfolios.

All major initiatives to deploy capital, either organically or through acquisitions, are subject to rigorous analysis, which tests business case assumptions and evaluates expected benefits. Key criteria include return on invested capital, expected payback period and internal rate of return based on discounted cash flows. Any potential acquisitions, investments or strategic initiatives that require a major allocation of the Bank's capital are reviewed and approved by the Bank's Strategic Transaction Investment Committee.

Managing and monitoring capital

As part of the Bank's capital management program, sources and uses of capital are continuously assessed and monitored. Capital is managed using regulatory thresholds and other metrics, including tangible common equity and economic capital.

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.

Regulatory Capital

Capital adequacy for Canadian banks is regulated by the Office of the Superintendent of Financial Institutions (OSFI) consistent with international standards set by the Bank for International Settlements (BIS). Bank regulatory capital consists of two components — Tier 1 capital and Tier 2 capital. Both components of capital provide support for banking operations and protect depositors. Tier 1 capital, which is more permanent, is of particular importance to regulators, financial markets and investors.

Tier 1 capital

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 $20.2 billion, an increase of $116 million over last year:

- Retained earnings grew by $1.6 billion, net of the cost to repurchase of common shares of $586 million.
- The Bank issued $1.0 billion in non-cumulative preferred shares (series 14, 15 and 16, each for $345 million).
- Mostly offsetting the above was a net increase of $2,228 million in cumulative unrealized foreign currency translation losses, net of hedges and related taxes, due to the strengthening of the Canadian dollar, and the redemption of $250 million of innovative Tier 1 capital instruments issued through Scotia Mortgage Investment Corporation.

Over the past five years, the Bank has created $9.5 billion of internally generated capital, despite raising dividends by 143% during this period. This level of internal capital generation has consistently been among the highest of the Canadian banks.

GROUP FINANCIAL CONDITION

Chart 14
Tier 1 capital

Chart 15
Scotiabank's tangible common equity

Chart 16
Dividend growth

Tier 2 capital

Tier 2 capital consists mainly of subordinated debentures and the eligible portion of the total general allowance for credit losses. Tier 2 capital increased by $695 million in 2007, due primarily to the issuance of $1 billion of Scotiabank Trust Subordinated Notes, partially offset by the redemption of subordinated debentures of $500 million. Also contributing to the increase was the first-time inclusion of the $298 million in net unrealized gains (after tax) on available-for-sale equity securities.

Risk-weighted assets

Risk-weighted assets are computed by applying OSFI-prescribed risk weights to on-and off-balance sheet exposures, focusing on credit and market risk.

Risk-weighted assets increased by $21 billion over the prior year to $218 billion, primarily from organic growth initiatives. Most of this growth was in the Bank's loan portfolio, both retail and non-retail lending.

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.

In 2007, both of the Bank's regulatory capital ratios remained solid. The Tier 1 and the Total capital ratios as at year-end were 9.3% and 10.5%, respectively, 90 and 120 basis points below last year. The declines were due primarily to the further deployment of capital for acquisitions and to support organic asset growth as reflected in higher risk-weighted assets.

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. Although there was a large reduction in regulatory capital from the strengthening Canadian dollar, this was largely offset by a corresponding reduction in risk-weighted assets, resulting in a minimal impact on capital ratios.

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, by its total capital. Under this test, total assets should not be greater than 20 times capital. As at October 31, 2007, the Bank's ACM was 18.2 times, an increase from 17.1 times last year, mainly reflecting the 9% growth in on-balance sheet assets.

Like most banks, the Bank provides back-stop liquidity facilities to its administered multi-seller commercial paper conduits. These facilities provide an alternate source of financing in the event a market disruption prevents the conduit from issuing commercial paper. If, in such an event, the Bank had to provide the majority of the funding for these conduits, it would have to consolidate the assets and liabilities of the conduit in its balance sheet. If such consolidation were to occur, it is estimated that the Bank's capital ratios would be reduced by approximately 40 basis points. As at October 31, 2007, the Bank's off-balance sheet commercial paper conduits were not experiencing liquidity issues. The Bank had minimal commercial paper holdings in these conduits as at October 31, 2007.

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 plus non-controlling interest in subsidiaries, less preferred shares, unrealized gains/losses on available-for-sale securities and cash flow hedges, 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 7.2%, 110 basis points lower than the 2006 level, due to the further deployment of capital in 2007. Scotiabank's TCE ratio continued to be strong relative to major International banks.

Economic capital

The amount of capital required for business risks assumed is assessed through the calculation of economic capital. Economic capital is another means for assessing the Bank's capital adequacy. In addition, the Bank uses its economic capital framework to determine the allocation of capital to the business lines. This allows us to appropriately compare and measure the returns from the business lines, based upon their inherent risk.

Management assesses various risks to determine those risks for which the Bank should assign risk capital, and then calculates the capital required. The three major risk categories are credit risk, market risk and operational risk. The capital allocation models for credit risk measurement use the Bank's internal credit risk ratings. In addition, the models take 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. Capital required for market risk exposure is determined based on the internal VAR models used in the trading book, and on stress tests of the Bank's interest rate gap structure, foreign exchange structural exposures, and equity investment portfolios. Operational risk is measured based on an assessment of both business and event risks. The Bank periodically reassesses the risk measurements used in the economic capital models and makes enhancements when necessary.

Table 13
Regulatory capital

As at October 31 ($ millions)	**2007**	2006	2005	2004	2003
Tier 1 capital					
Common shareholders' equity[1]	**$16,477**	$16,947	$15,482	$14,685	$13,814
Innovative capital instruments	**2,750**	3,000	2,250	2,250	2,500
Non-cumulative preferred shares	**1,635**	600	600	300	300
Non-controlling interest in subsidiaries	**497**	435	306	280	326
Less: Goodwill	**(1,134)**	(873)	(498)	(261)	(270)
	20,225	20,109	18,140	17,254	16,670
Tier 2 capital					
Subordinated debentures[2]	**1,452**	2,046	2,420	2,493	2,595
Trust subordinated notes	**1,000**	—	—	—	—
Eligible amounts of general allowance [3]	**1,298**	1,307	1,330	1,317	1,352
Net unrealized equity gains[4]	**298**	—	—	—	—
	4,048	3,353	3,750	3,810	3,947
Less: other capital deductions[5]	**(1,292)**	(476)	(358)	(200)	(209)
Total capital	**$22,981**	$22,986	$21,532	$20,864	$20,408
Total risk-weighted assets ($ billions)	**$ 218.3**	$ 197.0	$ 162.8	$ 150.5	$ 154.5
Capital ratios					
Tier 1 capital ratio	**9.3%**	10.2%	11.1%	11.5%	10.8%
Total capital ratio	**10.5%**	11.7%	13.2%	13.9%	13.2%
Assets to capital multiple	**18.2**	17.1	15.1	13.8	14.4

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

(2) Net of amortization.

(3) Under OSFI guidelines, the general allowance was included in Tier 2 capital up to a maximum of 0.875% of risk-weighted assets.

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

(5) Comprised of investments in insurance entities, investments in associated corporations and other items.

Table 14
Changes in regulatory capital

For the fiscal years ($ millions)	**2007**	2006	2005	2004	2003
Total capital, beginning of year	**$22,986**	$21,532	$20,864	$20,408	$20,960
Internally generated capital					
Net income	**4,045**	3,579	3,209	2,908	2,422
Preferred and common share dividends	**(1,771)**	(1,513)	(1,342)	(1,126)	(865)
	2,274	2,066	1,867	1,782	1,557
External financing					
subordinated debentures[1]	**(594)**	(374)	(73)	(102)	(777)
Trust subordinated notes	**1,000**	—	—	—	—
Preferred shares	**1,035**	—	300	—	—
Innovative capital instruments	**(250)**	750	—	(250)	275

Common shares and contributed surplus	**141**	108	88	88	139
Purchase of shares and premium on redemption	**(586)**	(324)	(973)	(290)	(201)
	746	160	(658)	(554)	(564)
Other					
Net unrealized equity gains[2]	**298**	—	—	—	—
Net unrealized foreign exchange translation gains (losses)	**(2,228)**	(360)	(178)	(709)	(1,176)
Non-controlling interest in subsidiaries	**62**	129	26	(46)	(336)
Other[3]	**(1,157)**	(541)	(389)	(17)	(33)
	(3,025)	(772)	(541)	(772)	(1,545)
Total capital generated (used)	**(5)**	1,454	668	456	(552)
Total capital, end of year	**$22,981**	$22,986	$21,532	$20,864	$20,408

(1) Net of amortization.

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

(3) 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.

Economic capital is much more risk sensitive than the existing regulatory capital measures. The proposed Basel II capital framework will introduce more risk sensitivity into the regulatory capital calculations, in certain instances using risk parameters similar to those used in the Bank's current economic capital methodology.

Dividends

Our record of strong earnings growth and our capital position allowed us to increase our quarterly dividend twice in 2007. On a year-over-year basis, dividends rose by 16% to $1.74 per share, and have risen at a compound annual rate of 16.7% over the past 10 years. The dividend payout ratio for 2007 was 43.1%, up from 41.8% last year, and within the Bank's target payout range of 35% to 45%.

Share buyback program

In the first quarter of 2007, the Bank renewed its normal course issuer bid to purchase up to 20 million of the Bank's common shares. This represented approximately 2 per cent of the Bank's common shares outstanding as at December 31, 2006. During fiscal 2007, the Bank purchased 12 million common shares at an average cost of $52.21 per share. The bid is expected to be renewed upon its expiry on January 11, 2008.

Share data

The Bank's common and preferred share data, as well as trust securities, are shown in Table 15. Further details, including exchangeability features, are discussed in notes 13 and 14 of the consolidated financial statements.

Basel II

The revised Basel Capital Framework (Basel II) became effective for the Canadian banks on November 1, 2007. The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing substantive changes in the treatment of credit risk, and an explicit new capital charge for operational risk. As well, there are specific Basel II governance and oversight requirements, coupled with increased supervisory review of capital adequacy and expansion of the related

public disclosure on an incremental basis throughout 2008.

Table 15
Share Data

As at October 31 (thousands of shares)	
Common shares outstanding	**983,767**[1]
Preferred shares Series 12	**12,000**[2]
Preferred shares Series 13	**12,000**[2]
Preferred shares Series 14	**13,800**[2]
Preferred shares Series 15	**13,800**[2]
Preferred shares Series 16	**13,800**[2]
Series 2000-1 trust securities issued by BNS Capital Trust	**500**[3]
Series 2002-1 trust securities issued by Scotiabank Capital Trust	**750**[4]
Series 2003-1 trust securities issued by Scotiabank Capital Trust	**750**[4]
Series 2006-1 trust securities issued by Scotiabank Capital Trust	**750**[4]
Scotiabank Trust Subordinated Notes — Series A issued by Scotiabank Subordinated Notes Trust	**1,000**[4]
Outstanding options granted under the stock option plans to purchase common shares	**27,885**[1][5]

(1) As at December 6, 2007, the number of outstanding common shares and options were 983,982 and 27,669, 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 as described in Note 14 to the consolidated financial statements.

(3) Reported in capital instrument liabilities and subordinated notes in the Consolidated Balance Sheet.

(4) Reported in deposits in the Consolidated Balance Sheet.

(5) Included are 16,025 stock options with tandem stock appreciation right (SAR) features.

Scotiabank has implemented a comprehensive program to meet regulatory requirements, culminating in a full year of “parallel run” capital reporting. The Bank has submitted its formal application to use the Advanced Internal Ratings Based (AIRB) Approach to credit risk for material Canadian, U.S. and European portfolios from November 1, 2007, and the standardized approach for operational risks. The Bank intends to implement the AIRB Approach for material portfolios elsewhere from November 1, 2010. Formal approval of the use of the AIRB approach beginning November 1, 2007, and any conditions attached thereto, is expected to be received from OSFI by December 31, 2007.

There is the potential for greater volatility as a result of the new regulatory capital rules. Potential minimum capital reductions in fiscal years 2008 and 2009 will be limited by regulatory capital “floors” of at least 90% and 80%, respectively, of the current capital adequacy requirements.

Outlook

Scotiabank expects to maintain strong capital ratios in 2008. Dividends are expected to continue to increase in line with earnings growth. The payout ratio will be at the higher end of the current target range of 35% to 45%.

For 2008, the Bank will continue to optimally deploy capital to grow its business through a combination of organic growth initiatives and acquisitions in each of our three business lines.

Off-balance sheet arrangements

In the ordinary course of business, the Bank enters into contractual arrangements that are not required to be recorded on the Bank’s consolidated balance sheet, 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 are composed of:

- 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.

- 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.

During the second quarter, there was a change in the structure of one of the multi-seller conduits administered by the Bank. As a result, the Bank was no longer the primary beneficiary of this VIE. Accordingly, the VIE was no longer included in the Bank's consolidated balance sheet.

At the end of the fourth quarter, the Bank became the primary beneficiary of a commercial paper conduit that it administered. As a result, the VIE was consolidated into the Bank's balance sheet, and the Bank recorded a loss of $115 million.

Liquidity facilities to commercial paper conduits totalled $22.5 billion as at October 31, 2007, of which $20.1 billion were to off-balance sheet conduits administered by the Bank. As at October 31, 2007, total commercial paper outstanding for conduits administered by the Bank was $14.5 billion. At year end, the Bank was holding less than 2% of the combined conduits' outstanding

commercial paper. Exposure to U.S. sub-prime mortgage risk is nominal.

For conduits not administered by the Bank, liquidity facilities totalled $2.4 billion, of which $1.8 billion was for U.S. third-party conduits and $570 million was for Canadian third-party conduits. Liquidity facilities provided to the non-bank conduits subject to the Montreal Accord — a group of 22 conduits subject to a restructuring process — totalled $370 million, with $88 million drawn on these facilities. Sub-prime exposure in third-party conduits is nominal.

As at October 31, 2007, total consolidated assets related to VIEs were $6 billion, compared to $13 billion at end of 2006. The reduction was primarily the result of a change in the structure of one of the Bank's sponsored multi-seller conduits. As a result, the Bank was no longer the primary beneficiary of the conduit, and it was deconsolidated in the second quarter. The amounts owed by or to the consolidated VIEs were not significant. The Bank earned fees of $45 million and $16 million in 2007 and 2006, respectively, from certain VIEs in which it has a significant variable interest but did not consolidate. More information with respect to the Bank's involvement with VIEs, including details of maximum loss exposure by VIE category, is provided in Note 6 to the consolidated financial statements on pages 110 to 111.

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 Canada Mortgage Bonds (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 pages 101 to 106). These securitizations enable the Bank to access alternative and more efficient funding sources, manage liquidity and other risks, and also meet capital requirements. 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.

Securitizations are a cost-effective way to fund the Bank's mortgage growth. The outstanding balance of off-balance sheet securitized mortgages was $11,631 million as at October 31, 2007, compared to $11,913 million last year and $7,801 million two years ago. The growth in 2007 arose primarily from continued participation in the CMB program. The amount of off-balance sheet securitized personal loans was $414 million as at October 31, 2007, compared to $170 million last year and $809 million two years ago.

Subsequent to the transfer of assets, the Bank may retain interests in securities issued by the trusts, has agreements to 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 22 to the consolidated financial statements on pages 125 to 126.

The Bank recorded securitization revenues of $34 million in 2007, compared to $43 million in 2006 and $79 million in 2005. This decrease was due in part to the decline in securitized personal loan balances. 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 109.

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, 2007, these amounted to $18.4 billion, essentially unchanged from $18.5 billion last year. These are issued at the request of a Bank customer to secure the customer's payment or performance obligations to a third party. The Bank provides partial credit enhancements, in the form of financial standby letters of credit, to commercial paper conduits. As at October 31, 2007, these credit enhancements amounted to $1.2 billion, compared to $43 million last year.
- 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. 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, 2007, these commitments amounted to $114 billion, compared to $106 billion a year earlier. The majority of these commitments are short-term in nature, with original maturities of less than one year.

These guarantees and loan commitments may expose the Bank to credit or liquidity risks, and are subject to the Bank's standard review and approval processes. For the guarantee 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 the Consolidated Statement of Income, were $213 million in 2007, compared to $216 million in the prior year. Detailed information on guarantees and loan commitments is disclosed in Note 22 to the consolidated financial statements on pages 125 and 126.

Financial instruments

Due to the nature of the Bank's primary business activities, the balance sheet is composed primarily of financial instruments. 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.

The Bank adopted new accounting standards related to financial instruments at the beginning of fiscal 2007, as described in Note 1 of the consolidated financial statements on pages 101 to 106. Consistent with these new standards, financial instruments are now 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 non-trading 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 now recorded in Other Comprehensive Income, a new component of the Bank's consolidated financial statements. 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. As a result of implementing the new accounting standards, the transitional amount for the items recorded in Accumulated Other Comprehensive Income was an increase of $683 million (after-tax) as at November 1, 2006. Prior to fiscal 2007, financial instruments were generally carried at cost, except those held for trading purposes which were carried at fair value.

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 56 to 67).

Further details on the terms and conditions of the Bank's financial instruments are provided in the notes to the 2007 consolidated financial statements. Note 23 (see pages 127 to 130), for example, summarizes the fair value of financial instruments and describes how these amounts were determined. A discussion of the critical accounting estimates with respect to determining the fair value of financial instruments can be found on pages 69 to 70. Note 23 also presents the Bank's interest rate risk profile by term and the Bank's financial instrument credit exposure by sector and geography. Note 24 (see page 131) provides details about certain financial instruments designated as held for trading using the fair value option under the new accounting standards. 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. Note 25 (see pages 132 to 136) provides details about derivatives used in trading and non-trading activities, including notional amounts, remaining term to maturity, credit risk and fair values.

The risks associated with the Bank's financial instrument portfolios can be assessed using various methods. 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 present value of net assets, as described on page 61. For trading activities, the table on page 62 discloses the average one-day Value at Risk by risk factor. Based on the Bank's maturity profile of derivative instruments, only 14% (2006 — 12%) had a term to maturity greater than five years.

As described in Note 23, the fair value of the Bank's financial instruments was lower than their book value by $791 million as at October 31, 2007. This difference relates to loan assets, deposit liabilities, subordinated debentures and capital instrument liabilities, as many financial instruments are now carried at fair value under the new accounting standards. The excess fair value over book value at October 31, 2006, was $396 million, and also included unrealized gains and losses on investment securities and derivatives used for asset/liability management, which were previously carried at cost or amortized cost. Excluding the impact of the changes resulting from the new financial instrument accounting standards, 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, 2007, and may not be reflective of future fair values. Further information on how fair values are estimated is contained in the Critical Accounting Estimates section (see pages 68 to 72).

The Bank's accounting policies for derivatives and hedging activities are further described in Note 1 (see pages 101 to 106). 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. For

securities designated as other than trading, realized gains and losses, as well as writedowns to fair value for other-than-temporary impairment, are recorded in other income, as are net gains and losses on trading securities.

business line overview

Domestic Banking

Domestic Banking reported net income available to common shareholders of $1,550 million, a 21% increase over last year. Results included a $92 million gain (net of applicable taxes) from the global Visa restructuring. Substantial growth in retail mortgages, and strong growth in personal lending and deposits was partially offset by a narrowing interest margin. As well, wealth management revenues reached record levels. Non-interest expenses increased to support revenue growth initiatives, while provisions for credit losses remained well controlled.

Chart 17
Domestic Banking
Net Income

International Banking

International Banking had a strong year in 2007, with net income available to common shareholders of $1,232 million, an increase of 17% from last year, notwithstanding the negative effect of foreign currency translation as a result of the appreciation of the Canadian dollar. Strong organic asset growth and contributions from acquisitions added to earnings. Credit quality remained stable, notwithstanding the rise in provisions from very low levels last year.

Chart 18
International Banking
Net Income

Scotia Capital

Scotia Capital had a solid year, as net income available to common shareholders rose 6% to $1,114 million in 2007. This result

was achieved despite adverse market conditions in the fourth quarter and the negative effect of foreign currency translation. Strong core trading and investment banking results, as well as interest recoveries, were partly offset by losses on structured credit instruments. We continued to benefit from favourable credit conditions, realizing net loan loss recoveries again this year.

Chart 19
Scotia Capital Net Income

Table 16
2007 Financial Performance

($ millions)	Domestic Banking	International Banking	Scotia Capital	Other[1]	**Total**
Net interest income[2]	$ 3,855	$ 2,762	$ 1,160	$ (679)	**$ 7,098**
Other income	2,248	1,227	1,290	627	**5,392**
Provision for credit losses	(295)	(101)	101	25	**(270)**
Non-interest expenses	(3,559)	(2,279)	(1,013)	(143)	**(6,994)**
Income taxes/non-controlling interest[2]	(685)	(359)	(413)	276	**(1,181)**
	1,564	1,250	1,125	106	**4,045**
Preferred dividends paid	(14)	(18)	(11)	(8)	**(51)**
Net income available to common shareholders	$ 1,550	$ 1,232	$ 1,114	$ 98	**$ 3,994**
Return on equity[3] (%)	33.0%	19.5%	29.0%	N/A	**22.0%**
Attributed equity[3]	$ 4,699	$ 6,322	$ 3,841	$3,272	**$18,134**
Average earning assets ($ billions)	$ 154	$ 66	$ 139	$ 14	**$ 373**

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

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

(3) Non-GAAP measure. See non-GAAP measures on page 29.

N/A Not applicable

Domestic Banking

2007 Achievements

- We are continuing to grow our Wealth Management business:
  - we achieved strong mutual fund growth, with net sales of $2.3 billion, as assets grew by 21.2% to $19.6 billion. Results have been driven by strong support from our Financial Advisors and increased media visibility, including the "Second Opinion" advertising campaign, focused on the advice available through our branches.
  - we acquired TradeFreedom, an online brokerage firm focused on the delivery of sophisticated trading facilities to active traders.
  - we made a strategic equity investment in DundeeWealth Inc., acquiring an 18% interest. Dundee owns Dynamic Mutual Funds and has a large independent sales force.
- We are boosting new customer acquisition and building brand awareness:
  - we partnered with Cineplex to launch SCENE, Canada's first-ever entertainment loyalty program.
  - we doubled the rate of our branch expansion, opening 35 new branches, and added 100 personal bankers and 115 financial advisors in high-growth markets.
  - we acquired Travelers Leasing Corporation, a provider of innovative retail automobile financing solutions.
  - we entered into a strategic partnership with the NHL and its players' association to exclusively market banking products and services under the NHL banner.
  - we are sponsoring CBC's Hockey Night in Canada pre-game show, Scotiabank Hockey Tonight, for the 2007/2008 season.
- We are improving our small business offering:
  - we launched Scotia Running Start for business™, a comprehensive program to support business start-ups.
  - we are leveraging key partnerships, such as our relationship with the College of Family Physicians of Canada, with which we announced a joint five-year, $1.5 million sponsorship program targeted at student professionals.

2008 Priorities

- Increase share of wallet with existing retail customers, focusing on the pre-retirement, emerging affluent and multicultural segments.
- Leverage strategic acquisitions and partnerships to acquire new customers and grow our deposits, credit card and insurance businesses.
- Build on the momentum in mutual funds by leveraging the expanded retail sales force, adding new branches and refining sales

metrics.

- Grow market share in Commercial Banking in targeted client segments, and improve share of wallet through increased enterprise-wide collaboration.
- Expand the small business customer base by using new planning tools and resources to leverage our small business bankers' expertise.

Business profile

Domestic Banking provides a full range of banking and investing services to more than 7 million customers across Canada, through a network of 1,005 branches and 2,852 ABMs, as well as telephone and Internet banking.

Domestic Banking includes three main businesses. Retail and Small Business Banking provides a comprehensive suite of offerings, including 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 planning and private client services for affluent clients. Commercial Banking delivers a full product suite to medium and large businesses.

Strategy

We remain committed to deepening relationships with customers and helping them become financially better off. Expanding our client base in market and customer segments with high growth potential will continue to be Domestic Banking's core strategy for growth. We will focus on strategic partnerships and acquisitions, and effectively utilize these relationships to increase revenues. With small business, emerging affluent and affluent clients, we will work to capture primary advisor status by leveraging our sales capacity and advisor expertise. In Commercial Banking, we are in the final stages of fine-tuning our business platform to add more value for clients.

Key performance drivers

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

- revenue growth;
- net interest margin;
- new customer acquisition;
- customer loyalty and satisfaction;
- share of wallet;
- productivity ratio; and
- loan loss ratio (specific provisions as a percentage of average loans and acceptances).

Financial performance

Domestic Banking reported net income available to common shareholders of $1,550 million in 2007, $271 million or 21% higher than last year. Return on equity was 33%. Domestic Banking accounted for 39% of the Bank's total net income. Results included a gain of $92 million (net of applicable taxes) from the global Visa restructuring. Excluding this gain, underlying net income was a record at $1,458 million, $179 million or 14% higher than last year. Retail and small business banking, commercial banking and wealth management all generated solid performances.

Table 17
Domestic Banking financial performance

($ millions)	**2007**	2006	2005
Net interest income[1]	**$ 3,855**	$ 3,682	$ 3,576
Other income	**2,248**	1,935	1,819
Provision for credit losses (PCL)	**(295)**	(279)	(274)
Non-interest expenses	**(3,559)**	(3,469)	(3,296)
Income taxes[1]	**(685)**	(581)	(566)
Net Income	**1,564**	1,288	1,259
Preferred dividends paid	**(14)**	(9)	(6)
Net income available to common shareholders	**$ 1,550**	$ 1,279	$ 1,253
Key ratios			
Return on equity (ROE)	**33.0%**	27.8%	31.0%
Productivity[1]	**58.3%**	61.8%	61.1%
Net interest margin (NIM)	**2.51%**	2.70%	2.90%
PCL as a percentage of loans and acceptances	**0.19%**	0.20%	0.22%
Selected balance sheet data (average balances)			
Earning assets	**153,695**	136,420	123,224
Deposits	**116,012**	107,370	98,579
Attributed equity	**4,699**	4,602	4,036

(1) Taxable equivalent basis.

Assets and liabilities

Average assets grew $17 billion or 13% in 2007. This was led by a substantial increase in residential mortgage balances (before securitization) of $13 billion or 16%, resulting in a 15 basis point increase in market share versus last year. Both the branch and mortgage broker channels produced strong growth. There was also very good year-over-year growth in personal revolving credit and business lending, including acceptances and business loans.

Retail and small business deposits grew $6 billion or 7%, due mainly to an increase in term deposit balances, which led to an industry-leading gain in personal term deposit market share of 41 basis points from last year, including the Dundee Bank acquisition. Commercial deposits, including current accounts and non-personal term deposits, rose 10%, continuing the double-digit growth trend of the past several years.

In Wealth Management, assets under administration rose 11% to $130 billion, while assets under management grew 8% to $26 billion. Net asset inflows from new customers, continued growth in our share of existing customers' investment business, and market-driven gains all contributed to this growth.

Revenues

Total revenues were $6,103 million, up $486 million or 9% from last year. Net interest income increased $173 million to $3,855 million, due to strong volume growth in both assets and deposits. This was partially offset by a decline in the margin of 19 basis points to 2.51%. The decrease in the margin was due mainly to higher wholesale funding costs, strong growth in net assets, the growth of relatively lower-spread mortgages as a proportion of the total portfolio, and competitive pricing pressures.

Chart 20

Total revenue

Other income for the year was $2,248 million, an increase of $313 million or 16%. Excluding the $111 million gain related to the global Visa restructuring, other income rose 10% or $203 million, including record growth in wealth management, and increases in retail and small business and commercial banking activities.

Retail & Small Business Banking

Total revenues were $4,046 million, up $305 million or 8% from last year. Net interest income rose $122 million or 4% from strong growth in assets and deposits, partially offset by a lower margin. Excluding the Visa gain, other income rose $72 million or 9% driven by higher service fees from chequing and savings accounts, due to pricing changes and new account growth, and higher credit card revenues, reflecting growth in cardholder transactions. There was also strong revenue growth of 14% in small business banking. We grew our lending and deposit market share and overall customer base in this important customer segment.

Commercial Banking

Total revenues rose $42 million or 5% to $926 million in 2007. Net interest income was 6% higher than last year, driven by strong growth in both assets

and deposits, partially offset by a decline in the margin. Average assets rose 9% and average deposits increased 10%. Year over year, other income rose 3% to $310 million.

Chart 21
Revenue growth

Chart 22
Strong loan growth

Chart 23
Wealth management
Good asset growth

Chart 24
Wealth management
Strong mutual fund sales

Wealth Management

Total revenues were a record $1,131 million, up $139 million or 14% from last year, driven by solid increases in all business units. Mutual fund revenue grew 24%, driven by net fund sales of $2.3 billion. This growth, which led to greater market share, occurred primarily in more profitable, long-term funds. The results also benefited from solid fund performance. Full-service brokerage revenues rose 9%, mainly as a result of increased fee-based business, as well as higher mutual fund trailer fees and insurance revenues. Private client revenues increased 13%, reflecting growth in Scotia Cassels managed account fees, Scotiatrust estate

and trust fees and private banking fees. ScotiaMcLeod Direct Investing revenues rose 14%, driven mainly by growth in trading volumes and mutual fund trailer fees.

Assets under administration continue to grow, rising 11% during the year, reflecting increases in our mutual fund, private client and retail brokerage businesses. Assets under management rose a strong 8%, primarily from strong mutual fund sales and performance.

Non-interest expenses

Non-interest expenses of $3,559 million rose modestly in 2007, up $90 million or 3% from last year. The increase was due mainly to the impact of the growth initiatives, including expansion of the branch network and the hiring of additional financial advisors. Also contributing to the increase were acquisitions, normal salary increases and higher volume-related expenses, consistent with higher revenues. Partially offsetting these factors were lower pension expenses and lower stock-based compensation.

Credit quality

The provision for credit losses was $295 million in 2007, an increase of $16 million compared to last year. Credit quality remained strong in the retail portfolio, with the ratio of loan losses to average loan balances increasing 2 basis points to 22 basis points. Credit quality in the commercial portfolio was also solid, with provisions remaining at very low levels.

Outlook

We expect to continue to grow assets and deposits in 2008, although retail asset growth will likely be lower, as the housing market is expected to slow, and commercial business activity may be impacted by uncertain economic conditions, in part due to the higher Canadian dollar. The margin is expected to remain under pressure.

Growth in other revenue is expected to come from an increase in deposit accounts, higher credit card transaction volumes and other business initiatives. We also expect continued broad-based growth in wealth management revenues.

Credit quality in the retail portfolio is expected to remain fairly stable, with provisions for credit losses increasing in line with growth in average loans. Commercial provisions are expected to rise, reflecting expectations of some softening in the credit cycle.

Non-interest expenses will likely be higher due to spending on revenue growth initiatives.

International Banking

2007 Accomplishments

- We increased our customer base to more than five million customers. Key growth drivers included opening 86 new branches in Mexico, as well as expanding the use of specialized sales forces and direct marketing programs.
- We made strategic acquisitions and investments in key markets:
  - 24.99% of Thanachart Bank in Thailand, the eighth-largest bank and leading auto lender in the country, with 24% market share.
  - 55% net interest in Dehring, Bunting & Golding, Jamaica's fourth-largest security dealer and largest equity broker.
  - controlling interest in BBVA Crecer, one of the largest pension fund administrators in the Dominican Republic.
  - 10% of First BanCorp in Puerto Rico, the second-largest financial holding company in the country.
  - In November 2007, finalized the purchase of a 99.5% stake in Banco del Desarrollo in Chile, giving us a market share of 6% when combined with our existing operations.
- We were recognized for our commitment to excellence and customer satisfaction and loyalty:
  - named Bank of the Year in Costa Rica, Trinidad and Tobago and Turks and Caicos by *The Banker* magazine.
  - named Best Bank in Costa Rica by *Global Finance* magazine.
- We continued to improve efficiency by consolidating data processing for the Caribbean countries into one site.
- We integrated Corporacion Interfin in Costa Rica and converted the merged operations to ScotiaPro, the new regional core banking platform.
- We opened private client centres in the Bahamas and the Cayman Islands to support our growing wealth management business.

2008 Priorities

- Continue growing our distribution channels to reach more customers through expanding our branch network, opening private client centres and increased use of specialized sales forces, call centres and direct mail.
- Upgrade Internet banking and cash management services through improved technology.
- Expand further into new customer segments including consumer finance (through our new Mexican joint venture), small business and wealth management.
- Standardize core banking systems in El Salvador and Panama.
- Seek acquisitions in our markets to improve scale or add complementary businesses.

Business profile

International Banking operates in more than 40 countries, and includes Scotiabank's retail and commercial banking operations outside of Canada. Through our network of 1,480 branches and offices and 2,980 ABMs, as well as telephone and Internet banking, we provide a full range of financial services to more than 5 million customers.

International Banking is organized into the following geographic regions: Caribbean and Central America, Mexico, Latin America and Asia.

Strategy

International Banking will continue to grow through a combination of organic growth and acquisitions.

Our organic growth strategy remains focused on enhancing sales and service delivery, expanding into complementary businesses and investing in new branches and systems to support future growth and improve operating efficiency. We are targeting new segments, including small business, young adults and consumer finance through focused marketing campaigns and innovative delivery channels. We are growing the commercial and corporate banking business by leveraging the broad range of services offered by the Scotiabank Group to deliver innovative solutions to our clients.

Our acquisition strategy is focused on acquiring strong, growing financial services companies in high-growth markets where we have existing operations. We will also use acquisitions to enter new markets on a selective basis.

Underpinning our strategy is a focus on leadership development and sharing best practices.

Key performance drivers

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

- revenue growth (using normalized exchange rates);
- customer satisfaction and loyalty;
- new customer acquisition;
- productivity ratio; and
- loan loss ratio (specific provisions as a percentage of average loans and acceptances).

BUSINESS LINES

Financial performance

International Banking's net income available to common shareholders in 2007 was a record $1,232 million, a substantial increase of $178 million or 17% from last year. Excluding $71 million in gains (net of applicable taxes) on the global Visa restructuring and the $51 million VAT recovery in 2006, net income was up $158 million or 16%.

Table 18
International Banking financial performance

($ millions)	**2007**	2006	2005
Net interest income[1]	**$ 2,762**	$ 2,306	$ 1,969
Other income	**1,227**	939	793
Provision for credit losses (PCL)	**(101)**	(60)	(70)
Non-interest expenses	**(2,279)**	(1,927)	(1,712)
Income taxes/non-controlling interest[1]	**(359)**	(196)	(174)
Net Income	**1,250**	1,062	806
Preferred dividends paid	**(18)**	(8)	(6)
Net income available to common shareholders	**$ 1,232**	$ 1,054	$ 800
Key ratios			
Return on equity (ROE)	**19.5%**	23.4%	21.6%
Productivity[1]	**57.1%**	59.4%	62.0%
Net interest margin (NIM)	**4.18%**	4.15%	3.95%
PCL as a percentage of loans and acceptances	**0.25%**	0.18%	0.25%
Selected balance sheet data (average balances)			
Earning assets	**66,146**	55,510	49,829
Deposits	**48,959**	41,309	37,219
Attributed equity	**6,322**	4,500	3,706

(1) Taxable equivalent basis.

The most significant contributors to earnings growth were the Caribbean and Central America and Peru. Results in the Caribbean and Central America were bolstered by the impact of our acquisitions in Costa Rica, the Dominican Republic and Jamaica, as well as strong organic loan growth and higher credit card revenues. The contribution from Peru reflected a full year of ownership, compared to seven months last year. Mexico also had strong retail loan growth, but was impacted by the VAT recovery in 2006 and a higher tax rate, as the remaining tax loss carry forwards were fully utilized during 2007. This strong growth was achieved notwithstanding the $37 million negative impact of foreign currency translation. International Banking accounted for 31% of the Bank's total net income, and had a return on equity of 19.5%.

Assets and liabilities

Average assets increased 19% during the year to $66 billion, despite the 4% negative impact of foreign currency translation. The increase was a result of organic growth as well as acquisitions. The organic growth was driven by a 21% increase in retail loans and 23% rise in commercial loans. Growth in credit cards and mortgages was particularly robust, up 32% and 24%, respectively, spread across the division. Organic commercial loan growth of $4 billion was primarily in Asia and the Caribbean and Central America. Growth in low-cost deposits was also strong at 11%, as balances rose in Mexico and throughout the Caribbean.

Revenues

Total revenues were $3,989 million in 2007, an increase of $744 million or 23% from last year, net of the $142 million negative impact of foreign currency translation.

Net interest income was $2,762 million in 2007, an increase of $456 million or 20% from last year, despite a negative foreign currency translation impact of $101 million. The increase was a result of very strong organic loan growth of 22% spread across the division, as well as the impact of acquisitions in Peru and the Caribbean and Central America. Net interest margins were up from last year, driven by increases in Mexico and Asia, as well as the full-year impact of acquisitions in Peru, partially offset by a decline in the Caribbean and Central America.

Other income increased $288 million or 31% to $1,227 million compared to last year. Excluding the gains on the global Visa restructuring, growth was still a very strong 21%, despite the $41 million negative impact of foreign currency translation. This growth resulted from our acquisitions in Peru and the Caribbean and Central America, higher investment gains in Mexico, and widespread transaction-driven growth. Partially offsetting these increases was the negative change in fair value of certain securities in 2007, resulting from widening credit spreads.

Caribbean and Central America

Total revenues were $1,628 million in 2007, an increase of $321 million or 25%, with the gains on the global Visa restructuring offsetting the negative impact of foreign currency translation.

Net interest income was $1,186 million in 2007, an increase of $166 million or 16% from last year, with the negative impact from foreign currency translation being offset by the $59 million growth from our acquisitions. The increase was driven by organic asset growth across the region, with a 25% increase in commercial lending and a 19% increase in retail loans, primarily in credit cards (up 26%) and mortgages (up 22%). Net interest margins declined due to a change in the mix of business, partly as a result of acquisitions.

Other income of $442 million was up $155 million from last year. This included a negative impact of foreign currency translation of $16 million, $63 million in gains from the global Visa restructuring and $49 million from acquisitions. The remaining $59 million in organic growth was primarily due to a very strong increase of 30% in credit card fees, as well as increases in personal banking fees and foreign exchange revenues.

Chart 25
Total revenue

Chart 26
Revenue growth

Chart 27
Strong loan growth

Chart 28
Total assets

Mexico

Total revenues were $1,366 million in 2007, an increase of $160 million or 13%. This included a negative impact of foreign currency translation of $56 million, which was partly offset by $19 million in gains from the global Visa restructuring.

Net interest income was $888 million in 2007, an increase of $85 million or 11% from last year, despite a $34 million negative impact due to foreign currency translation. This increase was driven by strong volume growth, primarily in retail loans, with a 43% rise in credit card balances and a 39% increase in mortgages. Net interest margins were higher than last year reflecting a change in the mix of assets.

Other income rose $75 million or 19% year over year, with the impact of the gains from the global Visa restructuring offsetting the negative impact of foreign currency translation. The increase was due primarily to higher investment gains, a 27% increase in full-service and discount brokerage fees from higher client trading revenues, a 19% increase in credit card fees and an 18% increase in other personal banking fees.

Latin America, Asia and Other

Total revenues were $995 million in 2007, an increase of $264 million, due primarily to a rise of $250 million from Peru, and $9 million in Visa gains offset by a $15 million negative impact from foreign currency translation. The remaining increase was due primarily to very strong organic commercial loan growth of 48% in Asia, and higher revenues in Chile, resulting from higher margins and retail loan volumes and an improved funding mix. These were partly offset by lower other income in Asia due to the gain on the sale of a foreclosed asset in 2006, and the negative change in fair value of certain securities in 2007 from widening credit spreads.

Non-interest expenses

Non-interest expenses were $2,279 million in 2007, up 18% from last year. This increase reflected a $73 million favourable impact of foreign currency translation, $51 million impact due to the VAT recovery in 2006 and a $202 million increase from our acquisitions in Peru and the Caribbean and Central America. The remaining increase was due to higher compensation expenses, consistent with business growth and new branch openings, volume-driven increases in communications and processing costs, and higher credit card and advertising expenses. Partly offsetting these increases were lower litigation fees.

Credit quality

The provision for credit losses was $101 million in 2007, up $41 million from the low levels recorded last year. Overall the division had a credit loss ratio of 25 basis points, which is in line with levels in three of the last four years. Higher provisions in Mexico and the Caribbean were partly offset by lower provisions in Peru and Asia.

Outlook

We expect International Banking to continue to grow in 2008, notwithstanding the negative impact of foreign currency translation, and higher tax rates in Mexico due to the full utilization of tax losses carried forward in 2007.

We anticipate continued growth in assets and deposits, with an increased focus on sales effectiveness, and ongoing expansion of the delivery network across all our markets.

Credit quality is expected to remain relatively stable, but loan loss provisions are expected to increase due to continued growth of the retail portfolios and lower recoveries in the commercial portfolio. We will continue to pursue acquisitions in key markets.

Scotia Capital

2007 Achievements

- For the fifth consecutive year, Scotia Capital's corporate derivatives team was ranked #1 in Canada by an independent third-party market survey.
- Scotia Capital was named the Best Foreign Exchange Bank in Canada for the third year in a row by *Global Finance*.
- In the United States, our New York Agency office celebrated its 100th anniversary, and we opened a new branch office in Houston, Texas.
- ScotiaMocatta was named one of Canada's 71 Global Leaders by the Institute for Competitiveness and Prosperity, and won the Best Bullion Dealing Bank Award from the Bombay Bullion Association.

Notable transactions during the year:

- Scotia Capital advised CanWest Global Communications Corp. on the $495 million privatization of CanWest MediaWorks Income Fund, was the lead arranger and bookrunner on $1.3 billion of bank facilities, joint bookrunner on US$400 million senior subordinated notes, and sole hedge advisor.
- Scotia Capital acted as joint lead manager on an $850 million, 30-year Maple Bond issue by the European Investment Bank. This was the largest long-dated issue in Canada in several years, and attracted significant interest. We were also awarded a portion of the related interest rate swap.
- Scotia Capital acted as joint lead arranger and joint bookrunner on a US$500 million senior credit facility and a US$400 million bridge loan to support U.S. Steel Corporation's acquisition of Stelco Inc.
- We acted as financial advisor on some of this year's key merger and acquisition deals, including transactions for Kinross Gold Corporation, Statoil ASA, Empire Company and Royal Dutch Shell.

2008 Priorities

- Continue to leverage our NAFTA capabilities, a significant competitive advantage.
- Increase market share with alternative asset managers.
- Expand client coverage globally in selected industries.
- Increase presence in infrastructure finance.
- Work more closely with International Banking to provide wholesale products to clients outside our core geographic markets.
- Increase market share in M&A and equity underwriting.

Business profile

Scotia Capital is the wholesale banking arm of the Scotiabank Group. We offer a wide variety of products, providing full-service coverage across the NAFTA region, and serving selected niche markets globally. We offer financial products and services to corporate, government and institutional investor clients.

Scotia Capital is organized into two main businesses. Global Capital Markets provides capital markets products and services such as fixed income, derivatives, prime brokerage, structured products, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious metals. Global Corporate and Investment Banking provides corporate lending, equity underwriting and mergers & acquisitions advisory services.

Strategy

Our strategy remains focused on growing our revenue and earning a good return on capital by building strong client relationships, while prudently managing risk. Revenue growth is expected to come from establishing new client relationships; levering global capabilities in selected industries, such as energy and mining; focusing on institutional investor clients, particularly alternative asset managers; and marketing our NAFTA capabilities to corporate and institutional clients with interests across the NAFTA geographies.

Key performance drivers

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 (specific provisions as percentage of average loans and acceptances);
- productivity ratio; and
- value at risk.

Financial performance

Scotia Capital contributed record net income available to common shareholders of $1,114 million in 2007, a 6% increase over last year, notwithstanding challenging market conditions in the fourth quarter. Scotia Capital delivered 3% revenue growth, as strong core trading and investment banking results more than offset losses of $135 million on structured credit instruments in the fourth quarter (including $20 million related to ABCP). The division also benefited from the recognition of a $43 million gain on the sale of its bond index business, which was completed in the fourth quarter. In addition, Scotia Capital experienced higher net loan loss and interest recoveries than the prior year. Return on equity was strong at 29%, slightly lower than last year's record performance. Scotia Capital contributed 28% of the Bank's total net income.

Table 19
Scotia Capital financial performance

($ millions)	**2007**	2006	2005
Net interest income[1]	**$ 1,160**	$ 951	$ 849
Other income	**1,290**	1,437	1,320
Recovery of (provision for) credit losses (PCL)	**101**	63	71
Non-interest expenses	**(1,013)**	(955)	(929)
Income taxes[1]	**(413)**	(443)	(390)
Net income	**1,125**	1,053	921
Preferred dividends paid	**(11)**	(6)	(6)
Net income available to common shareholders	**$ 1,114**	$ 1,047	$ 915
Key ratios			
Return on equity (ROE)	**29.0%**	31.3%	28.4%
Productivity[1]	**41.3%**	40.0%	42.8%
Net interest margin (NIM)	**0.76%**	0.73%	0.76%
PCL as a percentage of loans and acceptances[2]	**(0.16)%**	(0.25)%	(0.31)%
Selected balance sheet data (average balances)			
Total assets	**152,285**	129,825	112,209
Earning assets	**138,793**	116,598	98,908
Loans and acceptances	**63,691**	51,723	49,382
Securities	**69,557**	61,655	47,827
Attributed equity	**3,841**	3,349	3,223

(1) Taxable equivalent basis.

(2) Corporate Banking only.

Assets and liabilities

Total average assets increased 17% to $152 billion compared to last year. There was an increase of $14 billion in trading securities and loans to support both client-driven activity and trading opportunities. Average corporate loans and acceptances rose $5.5 billion, or 22%, to $30.6 billion. Canada achieved solid growth of $2.2 billion, accompanied by strong loan growth in the United States of $2.7 billion, despite the impact of the strengthening Canadian dollar.

Revenues

Total revenues increased to $2,450 million, up 3% compared to the prior year, despite fourth quarter derivatives trading losses on structured credit instruments. Growth was achieved in both Global Capital Markets and Global Corporate and Investment Banking.

Chart 29
Total revenue

Net interest income increased 22% to $1,160 million, due primarily to a rise in interest from trading operations and higher interest recoveries on impaired loans. Other income declined 10% to $1,290 million reflecting a decline in trading revenues, the result of the fourth quarter losses mentioned above, as well as lower credit-related fees and securities gains.

Global Corporate and Investment Banking

Total revenues increased 3% to $1,192 million compared to last year. Advisory and new issue fee revenues rose 8%, and revenue growth was also achieved in our lending businesses.

Net interest income was up 12% compared to 2006, due primarily to higher interest recoveries from impaired loans. As well, an increase in asset volumes in all lending markets contributed to higher net interest income, although these volume gains were largely mitigated by lower portfolio spreads, in part reflecting a transition to higher-quality assets. Loan origination fees also declined.

Other income decreased 4% compared to the prior year, reflecting lower gains from the sale of securities and a decrease in credit fees in the United States, partly offset by volume-driven growth in acceptance fees in Canada. Good growth was achieved in M&A and advisory fees, in addition to a modest increase in new issue revenues.

Chart 30
Corporate and investment banking revenue

Chart 31
Capital markets revenue

Chart 32
Good asset growth

Global Capital Markets

Total revenues increased 2% to $1,258 million compared to last year. Higher revenues from derivatives, fixed income, precious metals and foreign exchange operations were partly offset by lower equity trading results.

Interest income from trading operations increased 34%, due mainly to higher tax-exempt dividend income.

Other income declined 15%, despite growth in our foreign exchange and precious metals businesses and the gain on sale of the bond index business, due primarily to the losses on structured credit instruments.

Non-interest expenses

Non-interest expenses were $1,013 million in 2007, a 6% increase from last year, due largely to increased performance-related compensation, in line with improved results, as well as higher salary costs, which included signing bonuses to expand specialist expertise. Technology costs also rose to support business growth. These increases were partly offset by lower pension and benefit costs.

Credit quality

Scotia Capital reported net loan loss recoveries of $101 million in 2007, compared to $63 million in 2006. Significantly higher net recoveries were realized in the United States this year, while recoveries declined in Europe and Canada.

Outlook

Capital markets-related activities, including trading and equity and debt issuance, are expected to be impacted by continuing market uncertainty, though market volatility will also present trading opportunities. In corporate lending, we see opportunities for further core client and asset growth, as well as a widening of net interest margins. We expect to experience modest levels of loan losses in 2008, compared to the high level of interest and loan loss recoveries in 2007.

Other

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

Financial performance

Net income available to common shareholders was $98 million in 2007, compared to $169 million in 2006.

Table 20
Other financial performance

($ millions)	**2007**	2006	2005
Net interest income[1]	**$ (679)**	$ (531)	$ (523)
Other income	**627**	489	597
Provision for credit losses	**25**	60	43
Non-interest expenses	**(143)**	(92)	(106)
Income taxes[1]	**276**	250	212
Net income	**106**	176	223
Preferred dividends paid	**(8)**	(7)	(7)
Net income available to common shareholders	**$ 98**	$ 169	$ 216

(1) Taxable equivalent basis.

Revenues

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 $531 million in 2007, compared to $440 million last year reflecting higher dividend income.

Net interest income was negative $679 million in 2007, compared to negative $531 million in 2006. This was due primarily to the impact of eliminating a higher tax-exempt gross up, unfavourable changes in the fair value of non-trading derivatives used for hedging purposes, and lower dividend income from investment securities.

Other income grew $138 million to $627 million in 2007. Equity gains were higher than last year, partially offset by a writedown of structured credit instruments of $56 million.

Non-interest expenses

Non-interest expenses increased $51 million from last year to $143 million, mainly due to higher litigation and compensation expenses.

Credit quality

The provision for credit losses included a $25 million reduction in the general allowance in 2007, compared to a $60 million reduction in 2006.

Income taxes

The provision for income taxes includes the elimination of the gross-up of tax-exempt income, which was $91 million higher than last year.

Outlook

In light of the current market conditions, gains on the sale of non-trading securities are expected to decline in 2008 from the substantial levels generated in 2007.

RISK MANAGEMENT

risk management

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

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 strong risk governance, which includes active participation of the Board of Directors, senior executive and business line management in the risk management process. The framework has four main components:

Each of these components is continually reviewed and updated to ensure that they are consistent with risk-taking activities, and that they remain relevant 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.

Scotiabank's risk management framework

Policies & limits

Policies define the Bank's overall risk appetite, and are developed based on the requirements of regulatory authorities and input from the Board of Directors and senior executive management. Policies also provide guidance to the businesses and risk management units by setting the boundaries on the types of risks the Bank is prepared to assume.

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 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.

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.

The Bank implements its risk management framework using a committee structure as outlined below:

Risk governance

Risks are managed within policies and limits approved by the Board of Directors and in accordance with the governance structure outlined below:

Board of Directors and/or Board Committees:

Reviews and approves risk management strategies, policies, standards and key limits.

Senior Management 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.

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, corporate and investment banking 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.

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.

RISK MANAGEMENT

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 is created 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, reviews and approves the Bank's credit risk strategy and credit risk policy 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.

Credit risk management policies are developed by Global Risk Management and detail, among other things, the credit rating systems and associated parameter estimates as well as the delegation of authority for granting credit, calculating the allowance for credit losses and authorizing writeoffs. They form an integral part of enterprise-wide policies and procedures encompassing governance, risk management, and control structure.

Corporate and Commercial

Portfolio management objectives and risk diversification are key factors in setting policies and limits. Credit risk limits covering specified industries, countries, and single name/aggregation exposures are reviewed and approved either by the Executive and Risk Committee or the Board of Directors annually, and applied through the credit origination process.

Consistent with the Board-approved limits, corporate and commercial credit exposures are segmented into major industry groups. The risks in these industry groups are managed through limits, and lending criteria and guidelines relevant to each particular industry. Borrower limits are set within the context of established 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, 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.

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. Global Risk Management has a specialized credit group for all adjudication decisions referred from these special account groups.

The decision-making process for corporate and commercial credit exposures is intended to ensure that risks are adequately assessed, properly approved, continually monitored and actively managed. All significant credit requests are processed through the credit adjudication units of Global Risk Management for analysis and recommendation. Within the risk management framework, these credit units have defined authority levels appropriate to the size and risk of each transaction. Where the decision is beyond these authority levels, the credit unit will make a recommendation and refer the request 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.

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 current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; geopolitical risk; and the borrower's management.

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 and term that affect the amount of potential loss in the event of a default of the facility.

In making credit adjudication decisions, various internal and external modeling techniques are used to supplement the risk analysis of individual borrowers and credit portfolios. In addition, a risk-adjusted return on equity profitability model is used 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 independently 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.

Banking units and Global Risk Management review the various segments 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, and to determine whether corrective action needs to be taken. 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, the Executive and Risk Committee of the Board of Directors. The Risk Policy Committee makes recommendations to the Board of Directors or the Executive and Risk Committee regarding amendments to credit policies, including limit adjustments for various industries and countries.

Consumer

The decision-making process for consumer loans, which includes small business loans, is intended to ensure 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. This allows customers to choose the products that satisfy all of their credit needs. International Banking is migrating to 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 rating systems

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. These parameters are used in various internal and regulatory credit risk quantification calculations. For non-retail exposures, parameters are associated with each borrower and its transactions through the assignment of borrower and transaction ratings. 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. The credit risk rating systems meet the objectives of transparency and replicability in order to provide consistency in terms of credit adjudication, minimum lending standards by risk ratings and reporting of credit risk.

The Bank periodically reassesses its risk rating methodologies and makes enhancements when necessary. A description of the risk rating systems used in various portfolios is given below.

Corporate and commercial portfolios

The Bank uses a dual risk rating system that separately assesses the risk of borrowers and their associated credit facilities. 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.

Internal borrower and facility risk ratings are assigned when a facility is first authorized, and are promptly reevaluated 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 risk ratings are key inputs that affect loan pricing, computation of the general allowance for credit losses, and return on economic capital. The internal risk ratings also determine the management level at which the facilities can be authorized or amended. Lower-rated credits require increasingly more senior management involvement, or Risk Policy Committee approval, depending on the aggregate exposure. The internal risk ratings are also key variables that are considered as part of the Bank's syndication process, as guidelines for hold levels are tied to different risk ratings.

Consumer portfolios

The Bank's 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 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 loss, as well as early identification and management of problem loans.

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 price risk

is the risk of loss due primarily to changes in, and volatility of, spot and forward prices of precious and base metals.

Funding	Interest rate risk Foreign currency risk
Investments	Interest rate risk Foreign currency risk Equities risk Credit spread risk
Trading	Interest rate risk Foreign currency risk Equities risk Commodities risk Credit spread risk

Risk measurement summary

Value at risk

Value at risk (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. 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, about once in every 100 days, the trading positions may 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.

Stress testing

VAR measures potential losses in normally active markets. An inherent limitation of VAR is that it gives no information about how much losses could exceed their expected levels. Accordingly, stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can easily absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis. The Bank

also evaluates risk in its investment portfolios on a monthly basis, using stress tests based on specific market events.

Sensitivity analysis and simulation modeling

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. 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 growth, planned business mix, 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 retail, wholesale banking 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.

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. 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, 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.

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.

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.

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 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. Gap analysis, simulation modeling, sensitivity analysis and VAR are used to assess exposures and for planning purposes.

Chart 33
Interest rate gap

Table 21
Interest rate gap

Interest rate sensitivity position(1) As at October 31, 2007 ($ billions)	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	Total
Canadian dollars					
Assets	$ 108.8	$ 22.2	$ 74.8	$ 46.8	$ 252.6
Liabilities	91.9	33.1	70.5	57.1	252.6
Gap	16.9	(10.9)	4.3	(10.3)	
Cumulative gap	16.9	6.0	10.3	—	
Foreign currencies					
Assets	91.5	11.1	22.9	33.4	158.9
Liabilities	99.0	7.0	4.7	48.2	158.9
Gap	(7.5)	4.1	18.2	(14.8)	
Cumulative gap	(7.5)	(3.4)	14.8	—	
Total					
Gap	$ 9.4	$ (6.8)	$ 22.5	$ (25.1)	
Cumulative gap	9.4	2.6	25.1	—	
As at October 31, 2006:					
Gap	$ (0.7)	$ (4.4)	$ 27.6	$ (22.5)	

Cumulative gap	(0.7)	(5.1)	22.5	—

(1) The above figures reflect the inclusion of off-balance sheet instructions, as well as an estimate of prepayments on consumer and mortgage loans and cashable GICs. The off-balance sheet gap is included in liabilities.

Table 21 shows the breakdown of the Canadian dollar and foreign currency interest rate gaps as at October 31, 2007, and chart 33 illustrates trends in one-year interest rate gaps. As at October 31, 2006, the Bank had a moderate one-year liability gap in Canadian dollars. During fiscal 2007, this liability gap was changed to an asset gap in anticipation of higher interest rates. The Canadian dollar margin declined in 2007 because of continuing customer preference for longer term fixed rate mortgages, and the funding of retail asset growth, in part, through wholesale deposits.

The Bank maintained a one-year liability gap in foreign currencies throughout fiscal 2007. These exposures trended higher throughout the year. Overall, foreign currency margins increased slightly in 2007.

Based on the Bank's interest rate positions at year end 2007, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income after tax by approximately $79 million over the next 12 months. During fiscal 2007, this measure has ranged between $55 million and $100 million. This same increase would reduce the after-tax present value of the Bank's net assets by approximately $550 million. During fiscal 2007, this measure has ranged between $550 million and $701 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 and from its net corporate foreign currency positions. These corporate foreign currency positions generally consist of foreign currency profits earned in its domestic and foreign branches.

The Bank's exposure to its net investments in self-sustaining foreign operations 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. In accordance with GAAP, foreign currency translation gains and losses from net investments in self-sustaining foreign operations net of related hedging activities are recorded in accumulated other comprehensive income within shareholders' equity. While gains or losses on these net investments may increase or decrease the Bank's capital, depending on the relative strength of the Canadian dollar against other currencies, the Bank's regulatory capital ratios are not materially affected, since the risk-weighted assets of the foreign operations normally rise or fall in about the same proportion as the change in capital.

The Bank is subject to foreign currency translation 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 and Mexican pesos, 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. Some of these economic hedges may not qualify as hedges under current accounting rules, so there is 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 corporate positions are recorded directly in earnings.

The translation effect of the strengthening of the Canadian dollar on the Bank's earnings is summarized on page 29. In the absence of hedging activity, a one per cent increase (decrease) in the Canadian dollar against all the currencies in which we operate, decreases (increases) our earnings by approximately $34 million before tax. 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 $120 million.

Investment portfolio risks

The Bank holds investment portfolios for liquidity, longer-term capital appreciation or attractive after-tax yields. These portfolios expose the Bank to interest rate, foreign currency, credit spread and equity risks. Debt investments primarily consist of government, agency, and corporate bonds. Equity investments include common and preferred shares, as well as a diversified portfolio of third-party managed funds. The majority of these securities are valued using prices obtained from external sources. These portfolios are controlled by a Board-approved policy and limits.

As at October 31, 2007, the market value of the Bank's investment portfolios exceeded book value by $977 million (after related derivative and other hedge amounts), compared to a surplus of $1,001 million at the end of fiscal 2006. For further details, see Table 45 on page 82.

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 back testing analysis, in which the VAR is compared to theoretical and actual profit and loss results. The Board reviews VAR and stress testing results quarterly.

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 fiscal 2007, the one-day VAR for trading activities averaged $12.4 million, compared to $8.9 million in 2006. The increase was due primarily to increased interest rate risk with modest increases in exposures in all other risk factors. Table 22 shows VAR by risk factor.

Table 22
One-day VAR by risk factor ($ millions)

	2007 Year end	Avg	High	Low	2006 Year end	Avg	High	Low
Interest rate	18.6	8.2	18.6	5.7	9.5	6.2	10.3	2.5
Equities	4.4	5.9	14.7	2.6	2.8	5.8	9.0	2.6
Foreign exchange	2.7	1.9	5.6	0.4	0.6	1.4	3.8	0.5
Commodities	2.0	1.3	2.2	0.4	0.5	0.9	2.6	0.3
Diversification effect	(6.9)	(4.9)	N/A	N/A	(4.8)	(5.4)	N/A	N/A
All-Bank VAR	20.8	12.4	22.0	7.6	8.6	8.9	13.3	5.6

As noted on page 42, a Bank-sponsored conduit with $1 billion of highly-rated structured credit assets was consolidated at the end of the year and the risk was aggregated with the Bank's trading portfolios. This increased the all-Bank VAR and the interest rate VAR by $8 million and $10 million, respectively; the all-Bank VAR was subsequently reduced to levels approximating the Q4 2007 average.

Chart 34

Trading revenues[1]

(1) Taxable equivalent basis; refer to non-GAAP measures on page 29. Excludes losses of $115 million on structured credit instruments resulting from the consolidation of a Bank-sponsored commercial paper conduit on October 31, 2007.

Chart 34 shows the distribution of daily trading revenue for fiscal 2007. Trading revenue averaged $3.8 million per day, compared to $4.0 million for 2006. Revenue was positive on more than 92% of trading days during the year, compared to 90% in 2006. The largest single-day loss of $16.8 million occurred on August 7, 2007, due to significant movements in the credit and equity markets. This loss also exceeded the one-day VAR estimate as shown in chart 35, although a small number of such losses is consistent with the 99% confidence level used in the VAR.

Chart 35
Daily trading revenue vs. value at risk(1)

(1) Taxable equivalent basis; refer to non-GAAP measures on page 29. Excludes losses of $115 million on structured credit instruments resulting from the consolidation of a Bank-sponsored commercial paper conduit on October 31, 2007.

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.

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, and uses credit mitigation techniques, such as netting and collateralization. Note 25 to the consolidated financial statements on page 132 summarizes the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type. More than half of the notional value of the Bank's derivative instruments mature within one year, while 86% mature within five years. Investment grade counterparties account for 87% of the credit risk amount arising from the Bank's derivative transactions, compared to 85% in 2006.

The Bank's use of credit derivatives increased year over year, as notional principal amounts rose by $45.8 billion to $80.6 billion. The growth was in the Bank's trading businesses, where the activity includes trading with customers, structured transactions and modest proprietary 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. As at October 31, 2007, the notional value of credit default swaps sold in the investment and credit portfolios was $0.13 billion, and the notional value bought was $1.09 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.

RISK MANAGEMENT

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 counter-parties, 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 provides senior management oversight of liquidity risk and meets weekly to review the Bank's liquidity profile.

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 quarterly basis, or on a more frequent basis as required, 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.

In the latter part of the year, global funding markets were under pressure, resulting in increased funding costs for financial borrowers and their commercial paper conduits. Like other conduits, the Bank's commercial paper conduits did encounter some difficulties, but have generally been able to fund themselves through this period. The Bank itself did not have any significant funding concerns.

Liquidity profile

The Bank maintains large holdings of liquid assets to support its operations, as shown in Table 23. These assets generally can be sold or pledged to meet the Bank's obligations. As at October 31, 2007, liquid assets were $103 billion (2006 — $98 billion), equal to 25% (2006 — 26%) of total assets. These assets consist of securities, 71% (2006 — 76%), and cash and deposits with banks, 29% (2006 — 24 %).

Table 23
Liquidity

As at October 31 ($ millions)	**2007**	2006	2005	2004	2003
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	**$ 502**	$ 469	$ 481	$ 356	$ 647
Deposits with other banks	**4,152**	2,445	1,770	1,255	1,382
Securities	**53,429**	53,762	39,361	32,211	34,234
	58,083	56,676	41,612	33,822	36,263
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	**4,503**	3,839	3,142	2,624	2,388
Deposits with other banks	**20,039**	16,623	15,112	12,920	16,163

Securities	**19,809**	20,824	22,180	19,344	20,254
Call and short loans	**874**	5	—	—	—
	45,225	41,291	40,434	34,888	38,805
Total liquid assets					
Cash and deposits with Bank of Canada	**5,005**	4,308	3,623	2,980	3,035
Deposits with other banks	**24,191**	19,068	16,882	14,175	17,545
Securities	**73,238**	74,586	61,541	51,555	54,488
Call and short loans	**874**	5	—	—	—
	$103,308	$97,967	$82,046	$68,710	$75,068
Liquid assets as a % of total assets	**25.1%**	25.8%	26.1%	24.6%	26.3%

In the course of the Bank's day-today 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, 2007, total assets pledged or sold under repurchase agreements were $68 billion (2006 — $66 billion). The year-over-year increase was due to an increase in assets pledged with respect to securities borrowed and securities lent, and an increase in pledging with respect of over-the-counter derivatives, offset by a decrease in securities sold under repurchase agreements.

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 $192 billion as at October 31, 2007, versus $178 billion last year (see chart 36). This increase was attributable primarily to higher balances of demand and notice deposits and personal term deposits. As at October 31, 2007, the Bank's core funds represented 47% of total funding, unchanged from last year.

Chart 36
Core funds

Contractual obligations

Table 24 provides aggregated information about the Bank's contractual obligations as at October 31, 2007, 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, 23, 22 and 18, respectively, of the 2007 consolidated financial statements.

Table 24
Contractual obligations

($ millions)	Under 1 year	1-3 years	4-5 years	Over 5 years	**Total**
Term funding					
Wholesale deposit notes	7,312	6,821	3,389	4,038	**21,560**
Euro MTN	2,708	11,373	2,705	582	**17,368**
Subordinated	243	—	—	1,467	**1,710**
debentures Other long-term liabilities	86	359	290	434	**1,169**
Subtotal	10,349	18,553	6,384	6,521	**41,807**
Operating leases	169	266	169	191	**795**
Outsourcing obligations	211	412	408	416	**1,447**
Total	10,729	19,231	6,961	7,128	**44,049**

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 2007, the Bank issued approximately $15.7 billion of term funding in the domestic, euro, Yankee and other markets. Wholesale deposit notes include a $1 billion term deposit issued to Scotiabank Subordinated Notes Trust, a closed-end trust established under the laws of the Province of Ontario, which in turn issued $1 billion of Trust Subordinated Notes that are fully and unconditionally guaranteed by the Bank. The outstanding balance of the Bank's subordinated debentures decreased in 2007, as the redemption of an existing issue was not replaced.

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 $197 million in 2007.

The Bank has entered into two major outsourcing contracts. The largest is a seven-year contract with IBM Canada, signed in 2001, to manage the Bank's domestic computer operations, including data centres, branches, automated banking machines and desktop computing environment. This contract was expanded in 2005 to include the computer operations for the Caribbean and Central America, and Mexico. The contract for the Canadian operations was recently renewed and has been extended until 2013. The second is a three-year contract, with two optional five-year renewals, signed 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 renewal options has been exercised. These outsourcing contracts are cancellable with notice.

Capital commitments

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 $274 million in 2007, up 20% from $229 million in 2006. The increase was primarily in real estate, which rose $37 million or 24%, due to the ongoing growth of our retail branch network in Canada and internationally, especially in Mexico. Technology-related spending increased $8 million or 11%.

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.
  - Executive management who have clearly defined areas of responsibility.
  - A central operational risk management unit responsible for developing methods to identify, assess 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.
  - 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, entails 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.
- 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.

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 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 Department, Corporate Secretary, Public, Corporate & Government Affairs and Compliance departments, and the Bank's Reputational Risk Committee, are particularly oriented to the management of reputational risk.

In providing credit or advice 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 a 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.

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 56.

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.

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. In order to further reduce the Bank's environmental footprint, we are in the process of developing and implementing more definitive management processes on energy and paper use. With respect to energy use, greenhouse gas emissions (GHG) will be reported for the first time in 2007. With respect to paper use, a paperless banking campaign launched in 2007 led to significant numbers of customers switching to paperless banking options.

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, and Scotiabank's response to the Carbon Disclosure Project at 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 94. In addition, the Bank's Audit and Conduct Review Committee of the Board of Directors has reviewed this annual report, and the Board of Directors has reviewed and approved this annual report prior to its 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.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed with, or submitted, to securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified by these regulators. This 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.

Internal control over financial reporting is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting and preparation of the Bank's consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to United States GAAP. These controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the annual or interim financial statements.

The management of the Bank is responsible for establishing and maintaining disclosure controls and procedures, and has designed these disclosure controls and procedures, to ensure that the required objectives described above have been met.

As of October 31, 2007, the Bank's management 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. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO. In addition, the Bank's management has assessed whether during the 2007 fiscal year, there have been any 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.

The Bank continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, the Bank's management acknowledges that its disclosure controls and procedures 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.

Based on the evaluation of disclosure controls and procedures, and assessment of changes in internal control over financial reporting, the CEO and CFO have concluded that, subject to the inherent limitations noted above:

- the Bank's disclosure controls and procedures are effective; and
- during the 2007 fiscal year, 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.

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 101 to 106 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 related 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, composed of the specific and general allowances, represents management's best estimate of the probable credit losses in the portfolio of deposits with banks, securities purchased under resale agreements, loans, 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, including identifying credits that are impaired, considering factors specific to individual credits, as well as the impact of portfolio characteristics and risks. Changes to these estimates, or the use of different but also reasonable judgments and estimates could directly affect the provision for credit losses.

Specific allowances are an estimate of probable incurred losses related to existing impaired loans. In determining specific allowances applicable to individual credit exposures, management must first form a judgment as to whether a loan is impaired, and then as to its estimated net realizable value, based on evidence available about the individual borrower. Based on management's judgment, a loan is considered to be impaired when there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Management determines net realizable value by making estimates and judgments about the amount and timing of future cash flows, 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.

Specific allowances for certain homogenous portfolios, including residential mortgages, credit card loans, and most personal loans are determined on a group basis. The process involves estimating the probable losses inherent in the portfolio by using a formula method that takes into account recent loss experience.

Overall, credit quality remained strong in 2007. New specific provisions were higher in 2007, combined with greater recoveries in 2007, resulting in a small net increase in specific provisions for credit losses in 2007 compared to 2006.

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 determines the general allowance based on numerous factors, including historical default probabilities, loss severity in the event of default and exposure at default. Management applies best estimates of these parameters and, using an internally developed model, arrives at an initial quantitative estimate of the general allowance. Material changes in any of the above parameters or assumptions would affect the range of expected credit losses and, consequently, could affect the general allowance level. If either the probability of default or the loss severity parameters 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 $61 million (2006 — $65 million). Senior management determines whether it is necessary to adjust the quantitative estimate for the general allowance to take account of portfolio conditions not reflected in the historically based credit parameters used in the model. Considerations include 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 on a quarterly basis 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, 2007, was $1,298 million, a reduction from $1,307 million a year ago. At the end of the second quarter, the general allowance for credit losses was reduced by $25 million in the Consolidated Statement of Income, while there was a $16 million increase resulting from the consolidation of an acquisition in Costa Rica for a net reduction of $9 million in 2007. This net decline follows a reduction of $23 million in 2006 and $45 million in 2005.

Fair value of financial instruments

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). 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.

Beginning in fiscal 2007, under the new accounting standards for financial instruments, 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. Prior to fiscal 2007, all investment securities, as well as derivatives used for asset/liability management which qualified for hedge accounting treatment, were recorded at cost or amortized cost.

Trading securities and available-for-sale securities are normally valued using quoted market prices, including prices obtained

from external fund managers and dealers. Most derivatives are not actively traded and are therefore normally valued using models which incorporate independent and observable market parameters. These market inputs include observable interest rates, foreign exchange rates, credit spreads, equity prices, commodity prices and option volatilities. In certain instances where the derivative is complex or less actively traded and observable market data is not readily available, management's judgment on valuation inputs is necessary. Management also applies judgment in the selection of valuation models, as

Table 25
Valuation methodology for financial instruments

	2007				
	Assets			Liabilities	
	Trading Securities	Available-for-sale securities	Derivatives	Obligations related to securities sold short	Derivatives
Fair value based on:					
Quoted market prices	99%	73%	0%	100%	0%
Internal models with significant observable market parameters	1%	25%	98%	0%	98%
Internal models with significant unobservable market parameters	0%	2%	2%	0%	2%
Total	100%	100%	100%	100%	100%

well as consideration, on a portfolio basis, of customer credit risk and ongoing direct costs in the determination of fair value. Uncertainty in these estimates can affect the fair value and financial results recorded; however, the impact of any change in these estimates is not expected to be significant.

Commencing in fiscal 2007, as required by new accounting standards on financial instruments (see Note 1 on pages 101 to 106), 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 2007.

The breakdown of valuation sources for trading securities, available-for-sale securities, obligations related to securities sold short and derivatives is shown in Table 25. Percentages for trading instruments are in line with prior years.

Other-than-temporary impairment of securities other than trading

Commencing in fiscal 2007, under the new accounting standards for financial instruments, all investment securities except for equity accounted investments have been designated as available for sale. 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. Prior to fiscal 2007, all investment securities were recorded at cost or amortized cost.

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 considers 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. Prior to fiscal 2007, the carrying value of the security was reduced to net realizable value which was not materially different from fair value. Other-than-temporary impairments are recorded in net gains on securities, other than trading in the Consolidated Statement of Income.

As at October 31, 2007, the Bank was holding an immaterial amount of Canadian non-bank asset-back commercial paper as available-for-sale securities. Since the scheduled principal repayments were past due and there was uncertainty of ultimate recovery on these holdings, the Bank recorded an other-than-temporary impairment charge on these holdings in the fourth quarter of 2007 which totaled $20 million (pre-tax). The Bank used estimates of the fair value of the underlying assets held by the issuing commercial paper conduits to estimate the fair value of the commercial paper. Additionally, the Bank holds an immaterial amount of debt investments issued by structured investment vehicles (SIVs) for which an other-than-temporary impairment charge of $56 million was recorded in the fourth quarter of 2007. The Bank used the underlying net asset value of the investment vehicles to approximate the fair value of the debt instruments issued by these vehicles at year end. The Bank does not sponsor or manage any SIVs. The ultimate realizable amount on these investments will likely vary from the year-end fair values.

As at October 31, 2007, the gross unrealized gains on available-for-sale securities recorded in accumulated other comprehensive income were $1,183 million, and the gross unrealized losses were $211 million, resulting in a net unrealized gain

of $972 million before related derivative and other hedge amounts ($977 million after related derivative and other hedge amounts). As at October 31, 2007, there were $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, 2007, was $90 million, of which $85 million related to debt securities and $5 million related to equity securities. 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.

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.

Actuarial methods are used in the calculation of employee future benefit expense and the related benefit obligation based on management's best estimate of certain key assumptions, which are reviewed and approved each year. These 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 applies judgment, taking into consideration, among other things, expectations of future economic trends, and business conditions, including inflation rates. As well, management 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. 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 2007 would have been $49 million higher (lower). Over the past 10-year period, the actual annualized rate of return of 9.6% on the assets of the Bank's main pension plan exceeded the assumed annualized rate by 2.2%.

The difference between actual experience and assumptions made by management will result in a net actuarial gain or loss, and will consequently increase or decrease the benefit expense for future years. In accordance with Canadian GAAP, this difference is amortized into income over future periods, rather than being recognized immediately as income or expense. 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 11 to 22 years for the Bank's principal pension plans, and 11 to 27 years for the Bank's principal other benefit plans.

Note 18 on pages 120 to 122 of the 2007 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. In addition, Note 1 on pages 101 to 106 contains further information on the significant accounting policies underlying the accounting for employee future benefits.

Corporate income taxes

The provision for income taxes and future income tax assets and liabilities requires management's judgment and is determined based on 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 the actual timing of the reversals of the future tax asset and liabilities differs from the expected timing or if management's interpretations of the legislation differ from those of the tax authorities, the provision for income taxes could increase or decrease in future periods. Management is required to assess whether it is likely that the future income tax assets will be realized prior to expiration and, based on this assessment, determine if the recording of a valuation allowance is required.

Total gross future tax assets related to subsidiaries' unused income tax losses arising in prior years were $203 million as at October 31, 2007 (2006 – $357 million), for which the Bank established a valuation allowance of $102 million (2006 – $183 million) due to uncertainty about the realization of these losses. Furthermore, one of the Bank's foreign subsidiaries has a valuation allowance of $213 million (2006 – $nil) 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 $1,114 million as at October 31, 2007 (2006 – $1,478 million). Note 1 on pages 101 to 106 and Note 17 on page 119 of the 2007 consolidated financial statements contains further details with respect to the Bank's provisions for income taxes.

Variable interest entities

In the normal course of business, the Bank enters into arrangements with variable interest entities (VIEs) on behalf of its customers and for its own purposes. These VIEs can be generally categorized as multi-seller commercial paper conduits, funding vehicles, structured finance entities and collateralized debt obligation entities. Further details are provided on pages 42 to 43 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 arrangements, determining whether the entity is considered a VIE under

the accounting rules, and determining the Bank's variable interests in the VIE. These interests are then compared to those of the unrelated outside parties to identify the holder that is exposed to the majority of the variability in the VIE's expected losses, expected residual returns, or both, to determine whether the Bank should consolidate the VIE. The comparison uses both qualitative and quantitative analytical techniques that may involve 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. Further details with respect to the Bank's involvement with VIEs are provided in Note 6 to the consolidated financial statements on pages 110 to 111.

In the fourth quarter of 2007, the Bank re-evaluated its primary beneficiary assessments of the multi-seller commercial paper conduits that it operates and continued to conclude that it was

not the primary beneficiary. As such, the assets of these conduits are not consolidated with the Bank's assets.

At the end of 2007, the Bank decided to wind up an asset-backed commercial paper conduit that was previously not consolidated. As a result of this decision and actions taken to initiate the unwinding, the Bank became the primary beneficiary and consolidated the assets and liabilities. (See Variable interest entities on pages 42 to 43.)

Changes in accounting policies

The Bank's significant accounting policies are set out in Note 1 on pages 101 to 106 of the 2007 consolidated financial statements. Included within that note is a description of the changes in accounting policies required to be adopted in response to new accounting standards in 2007.

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 liabilities. Note 1 on pages 101 to 106 provides further details on the resulting changes in accounting policy arising from these new standards.

A new Statement of Comprehensive Income now forms part of the Bank's consolidated financial statements and displays current period net income and other comprehensive income. Accumulated other comprehensive income (loss) is a separate component of shareholders' equity. The Consolidated Statement of Comprehensive Income reflects changes in accumulated other comprehensive income, including changes in unrealized gains and losses on available-for-sale assets, the fair value of derivatives designated as cash flow hedges, to the extent they are effective, and foreign currency translation amounts arising from self-sustaining foreign operations.

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 have been reclassified to accumulated other comprehensive income (loss).

As a result of these changes, the Bank has recorded a net reduction of $61 million (net of income tax benefit of $31 million) to opening retained earnings. 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.

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 $10.4 million as at October 31, 2007 (2006 – $6.7 million), and loans to directors totaled $0.7 million (2006 – $0.1 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 16 of the Consolidated Financial Statements on page 117).

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 $418 million as at October 31, 2007 (2006 – $533 million), while actual utilized amounts were $204 million (2006 – $303 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 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

Table 26
Net income by geographic segment

For the fiscal years ($ millions)	2007 Canada	2007 United States	2007 Mexico	2007 Other International	2007 Total	2006 Canada	2006 United States	2006 Mexico	2006 Other International	2006 Total	2005 Canada	2005 United States	2005 Mexico	2005 Other International	2005 Total
Net interest income	**$ 4,294**	**$ 152**	**$ 887**	**$ 2,012**	**$7,345**	$ 4,029	$ 71	$ 802	$ 1,656	$6,558	$ 3,808	$ 199	$ 690	$ 1,438	$6,135
Other income	**3,084**	**698**	**478**	**930**	**5,190**	2,883	581	403	726	4,593	2,737	484	363	716	4,300
Provision for credit losses	**295**	**(91)**	**68**	**23**	**295**	273	(41)	27	17	276	262	(93)	34	70	273
Non-interest expenses	**4,285**	**224**	**723**	**1,712**	**6,944**	4,110	241	630	1,448	6,429	3,917	246	669	1,185	6,017
Provision for income taxes	**474**	**215**	**51**	**225**	**965**	478	138	(17)	153	752	450	216	1	142	809
Non-controlling interest	**—**	**—**	**12**	**106**	**118**	—	—	15	83	98	—	—	10	61	71
Preferred dividends paid	**20**	**5**	**6**	**15**	**46**	12	2	3	7	24	9	2	2	6	19
	$ 2,304	**$ 497**	**$ 505**	**$ 861**	**$4,167**	$ 2,039	$ 312	$ 547	$ 674	$3,572	$ 1,907	$ 312	$ 337	$ 690	$3,246
Corporate adjustments[1]					**(173)**					(23)					(62)
Net income available to common shareholders					**$3,994**					$3,549					$3,184

(1) Revenues and expenses which have not been allocated to specific operating business lines are reflected in corporate adjustments.

Table 27
Loans and acceptances by geography

Excludes reverse repos As at September 30 ($ billions)	2007	2006	2005	2004	2003	Percentage mix 2007	Percentage mix 2003
Canada							
Atlantic provinces	**$ 14.2**	$ 12.7	$ 12.1	$ 11.3	$ 10.0	**6.2%**	6.5%
Quebec	**14.2**	13.1	9.8	8.4	7.9	**6.2**	5.0
Ontario	**91.1**	81.5	72.4	66.5	60.8	**39.5**	39.0
Manitoba and Saskatchewan	**6.0**	5.4	5.3	5.1	5.0	**2.6**	3.2
Alberta	**19.9**	17.1	14.7	13.7	11.7	**8.6**	7.5
British Columbia	**18.8**	16.4	14.2	13.3	12.8	**8.1**	8.2
	164.2	146.2	128.5	118.3	108.2	**71.2**	69.4
United States	**14.9**	14.3	8.8	9.8	13.8	**6.5**	8.9
Mexico	**8.9**	9.3	8.5	7.3	7.1	**3.9**	4.6
Other International							
Europe	**10.2**	8.1	7.3	6.1	8.0	**4.4**	5.1
Caribbean	**12.2**	11.6	10.1	10.1	10.2	**5.3**	6.6
Latin America	**11.6**	9.2	5.2	4.9	5.1	**5.0**	3.3
Other	**9.9**	7.4	6.5	5.0	5.0	**4.3**	3.1
	43.9	36.3	29.1	26.1	28.3	**19.0**	18.1
General allowance[1]	**(1.3)**	(1.3)	(1.3)	(1.4)	(1.5)	**(0.6)**	(1.0)
Total loans and acceptances	**$ 230.6**	$ 204.8	$ 173.6	$ 160.1	$ 155.9	**100.0%**	100.0%

(1) As at October 31.

Table 28
Gross impaired loans by geographic segment

As at October 31 ($ millions)	2007	2006	2005	2004	2003
Canada	**$ 606**	$ 655	$ 537	$ 489	$ 675

United States	**11**	119	331	701	1,084
Mexico	**188**	213	190	223	398
Other International	**739**	883	762	787	1,105
Total	**$ 1,544**	$ 1,870	$ 1,820	$ 2,200	$ 3,262

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

SUPPLEMENTARY DATA

Table 29
Specific provision for credit losses by geographic segment

For the fiscal years ($ millions)	**2007**	2006	2005	2004	2003
Canada	**$ 295**	$ 273	$ 264	$ 299	$ 395
United States	**(91)**	(41)	(93)	54	270
Mexico	**68**	27	34	6	2
Other International	**23**	17	70	131	226
Total	**$ 295**	$ 276	$ 275	$ 490	$ 893

Table 30
Geographic distribution of earning assets

	2007					
As at September 30 ($ billions)	Balance	% of earning assets	2006	2005	2004	2003
North America						
Canada	**$ 247.5**	**66.0%**	$ 218.4	$ 187.2	$ 166.9	$ 158.5
United States	**36.3**	**9.7**	41.9	32.5	25.0	34.1
	283.8	**75.7**	260.3	219.7	191.9	192.6
Mexico	**19.8**	**5.3**	21.1	20.4	18.7	18.2
Europe						
United Kingdom	**6.4**	**1.7**	6.4	6.8	7.4	8.1
Germany	**3.8**	**1.0**	3.5	2.0	3.5	2.9
Ireland	**6.2**	**1.6**	4.8	4.0	2.0	1.4
France	**2.3**	**0.6**	2.5	1.9	1.1	1.5
Netherlands	**1.4**	**0.4**	1.5	1.7	0.8	1.5
Other	**5.5**	**1.5**	3.4	4.2	3.4	4.8
	25.6	**6.8**	22.1	20.6	18.2	20.2
Caribbean						
Jamaica	**3.2**	**0.9**	3.1	2.8	3.0	2.6
Puerto Rico	**2.1**	**0.6**	2.0	1.7	1.9	2.1
Bahamas	**2.4**	**0.6**	2.4	1.8	1.7	1.7
Trinidad & Tobago	**1.7**	**0.5**	1.5	1.7	1.5	1.6
Other	**7.3**	**1.9**	9.0	6.1	6.7	6.4
	16.7	**4.5**	18.0	14.1	14.8	14.4
Latin America						
Chile	**4.2**	**1.1**	4.2	3.2	3.3	3.4
Peru	**4.5**	**1.2**	4.1	0.1	0.2	0.2
Other	**7.0**	**1.9**	4.3	3.7	3.3	3.5
	15.7	**4.2**	12.6	7.0	6.8	7.1
Asia						
India	**2.5**	**0.7**	1.8	1.5	2.0	1.1
Malaysia	**1.4**	**0.4**	1.3	1.8	1.4	1.5
South Korea	**1.8**	**0.5**	1.6	1.7	1.4	1.8
Japan	**1.8**	**0.5**	1.1	1.0	1.1	1.7
Hong Kong	**1.6**	**0.4**	1.7	1.4	0.9	1.0
Other	**3.6**	**0.9**	2.9	2.7	2.4	2.0
	12.7	**3.4**	10.4	10.1	9.2	9.1
Middle East and Africa	**1.8**	**0.5**	1.8	1.1	0.7	0.4
General allowance [1]	**(1.3)**	**(0.4)**	(1.3)	(1.3)	(1.4)	(1.5)
Total	**$ 374.8**	**100.0%**	$ 345.0	$ 291.7	$ 258.9	$ 260.5

(1) As at October 31.

Credit risk

Table 31
Cross-border exposure to select countries[1]

As at October 31 ($ millions)	Loans	Interbank deposits	Trade	Government and other securities	Investment in subsidiaries and affiliates	Other	**2007** Total	2006 Total
Mexico	$ 1,298	$ —	$ 84	$ 474	$ 1,939	$ 1	**$ 3,796**	$ 4,093
Asia								
India	$ 782	$ 4	$ 594	$ 263	$ —	$ 60	**$ 1,703**	$ 1,524
South Korea	778	—	458	368	—	55	**1,659**	1,405
China	419	11	963	16	—	23	**1,432**	989
Japan	718	21	71	73	—	47	**930**	1,132
Hong Kong	393	1	50	310	—	22	**776**	1,082
Malaysia	177	—	5	292	140	—	**614**	853
Thailand	21	—	16	96	196	—	**329**	210
Other[2]	254	206	254	150	—	8	**872**	820
	$ 3,542	$ 243	$ 2,411	$ 1,568	$ 336	$ 215	**$ 8,315**	$ 8,015
Latin America								
Brazil	$ 568	$ —	$ 682	$ 295	$ —	$ 11	**$ 1,556**	$ 1,467
Chile	751	—	2	—	416	—	**1,169**	1,199
Costa Rica	564	—	40	—	380	—	**984**	764
Peru	139	—	30	25	552	—	**746**	574
El Salvador	200	—	14	—	310	—	**524**	570
Venezuela	4	—	4	3	77	—	**88**	161
Other[3]	592	6	35	41	—	—	**674**	689
	$ 2,818	$ 6	$ 807	$ 364	$ 1,735	$ 11	**$ 5,741**	$ 5,424

(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.

Table 32
Loans and acceptances by type of borrower

Excludes reverse repos As at September 30 ($ billions)	**2007** Balance	**2007** % of total	2006	2005
Loans to households				
Residential mortgages	**$ 100.9**	**43.7%**	$ 88.2	$ 74.6
Credit cards	**10.0**	**4.3**	9.1	8.6
Personal loans	**31.4**	**13.6**	29.4	25.6
	142.3	**61.6**	126.7	108.8
Loans to businesses and governments				
Financial services	**17.1**	**7.4**	13.0	9.5
Wholesale and retail	**11.5**	**5.0**	10.2	10.2
Real estate and construction	**8.7**	**3.7**	7.0	6.0
Oil and gas	**6.8**	**3.0**	5.2	3.1
Transportation	**5.2**	**2.3**	4.9	4.0
Automotive	**4.7**	**2.0**	4.7	5.8
Agriculture	**3.8**	**1.7**	3.4	2.9
Government	**2.3**	**1.0**	3.4	2.0

Hotels and leisure	**3.3**	**1.4**	3.4	2.8
Mining and primary metals	**4.2**	**1.8**	3.1	2.7
Utilities	**2.0**	**0.9**	2.9	1.4
Health care	**2.9**	**1.3**	2.9	2.0
Telecommunications and cable	**1.8**	**0.8**	2.5	1.7
Media	**2.5**	**1.1**	2.4	2.0
Chemical	**2.8**	**1.2**	2.2	2.2
Food and beverage	**2.3**	**1.0**	2.2	2.1
Forest products	**1.8**	**0.8**	1.5	1.8
Other	**5.9**	**2.6**	4.5	3.9
	89.6	**39.0**	79.4	66.1
	231.9		206.1	174.9
General allowance [1]	**(1.3)**	**(0.6)**	(1.3)	(1.3)
Total loans and acceptances	**$ 230.6**	**100.0%**	$ 204.8	$ 173.6

(1) As at October 31.

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Table 33
Off-balance sheet credit instruments

As at October 31 ($ billions)	**2007**	2006	2005	2004	2003
Commitments to extend credit	**$ 114.3**	$ 105.9	$ 99.9	$ 104.2	$ 110.5
Standby letters of credit and letters of guarantee	**18.4**	18.5	15.8	14.4	14.2
Securities lending, securities purchase commitments and other	**13.8**	13.0	9.3	4.8	7.7
Total	**$ 146.5**	$ 137.4	$ 125.0	$ 123.4	$ 132.4

Table 34
Changes in net impaired loans[1]

For the fiscal years ($ millions)	**2007**	2006	2005	2004	2003
Gross impaired loans					
Balance at beginning of year	**$ 1,870**	$ 1,820	$ 2,200	$ 3,241	$ 3,987
Net additions					
New additions	**1,338**	1,262	1,263	1,774	2,634
Declassifications, payments and loan sales	**(891)**	(956)	(1,034)	(1,680)	(1,936)
	447	306	229	94	698
Acquisition of subsidiaries	**33**	340	64	—	—
Writeoffs					
Residential mortgages	**(5)**	(5)	(6)	(7)	(9)
Personal loans	**(301)**	(214)	(237)	(198)	(192)
Credit cards	**(183)**	(150)	(130)	(145)	(116)
Business and government	**(209)**	(174)	(277)	(632)	(610)
	(698)	(543)	(650)	(982)	(927)
Foreign exchange and other	**(108)**	(53)	(23)	(153)	(517)
Balance at end of year	**1,544**	1,870	1,820	2,200	3,241
Specific allowance for credit losses					
Balance at beginning of year	**1,300**	1,139	1,321	1,719	1,892
Acquisition of subsidiaries	**38**	323	59	—	—
Specific provision for credit losses	**295**	276	275	490	893
Writeoffs	**(698)**	(543)	(650)	(982)	(927)
Recoveries by portfolio					
Residential mortgages	**4**	3	1	2	1
Personal loans	**73**	71	75	78	79
Credit cards	**35**	37	32	32	26
Business and government	**74**	70	97	46	58
	186	181	205	158	164
Foreign exchange and other[2]	**(178)**	(76)	(71)	(64)	(303)
Balance at end of year	**943**	1,300	1,139	1,321	1,719
Net impaired loans					
Balance at beginning of year	**570**	681	879	1,522	2,095
Net change in gross impaired loans	**(326)**	50	(380)	(1,041)	(746)
Net change in specific allowance for credit losses	**357**	(161)	182	398	173
Balance at end of year	**601**	570	681	879	1,522
General allowance for credit losses	**1,298**	1,307	1,330	1,375	1,475
Balance after deducting general allowance	**$ (697)**	$ (737)	$ (649)	$ (496)	$ 47

(1) Excludes net impaired loans pertaining to designated emerging markets in 2003.

(2) Includes $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.

Table 35
Provisions for credit losses

For the fiscal years ($ millions)	**2007**	2006	2005	2004	2003
Specific provisions for credit losses					
Net specific provisions	**$ 481**	$ 457	$ 480	$ 648	$ 1,057
Recoveries	**(186)**	(181)	(205)	(158)	(164)
Net specific provisions for credit losses[1]	**295**	276	275	490	893
General provision	**(25)**	(60)	(45)	(100)	—
Total net provisions for credit losses	**$ 270**	$ 216	$ 230	$ 390	$ 893

(1) Excluding reversals of credit losses related to Argentina, net specific provisions were $957 in 2003.

Table 36
Specific provisions for credit losses by type of borrower

For the fiscal years ($ millions)	**2007**	2006	2005
Personal			
Residential mortgages	**$ (9)**	$ 10	$ 11
Other personal loans	**449**	283	275
	440	293	286
Businesses and governments			
Financial services	**(10)**	—	10
Wholesale and retail	**(39)**	5	11
Real estate and construction	**(11)**	(7)	27
Oil and gas	**(1)**	—	(3)
Transportation	**(9)**	4	(6)
Automotive	**1**	11	6
Agriculture	**(4)**	2	11
Government	**2**	(6)	5
Hotels and leisure	**(5)**	(21)	20
Mining and primary metals	**(4)**	(10)	(47)
Utilities	**(18)**	(21)	(71)
Health care	**(1)**	2	3
Telecommunications and cable	**(5)**	(14)	17
Media	**(13)**	(4)	(3)
Chemical	**(22)**	13	4
Food and beverage	**(6)**	7	(17)
Forest products	**—**	(1)	10
Other	**—**	23	12
	(145)	(17)	(11)
Total specific provisions	**$ 295**	$ 276	$ 275

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Table 37
Non-performing loans by type of borrower

Excluding reverse repos As at October 31 ($ millions)	2007 Net	2007 Allowance for credit losses	2007 Gross	2006 Net	2006 Allowance for credit losses	2006 Gross
Personal						
Residential mortgages	**$ 189**	**$ (40)**	**$ 229**	$ 178	$ (138)	$ 316
Other personal loans	**57**	**(527)**	**584**	13	(456)	469
	246	**(567)**	**813**	191	(594)	785
Businesses and governments						
Financial services	**14**	**(7)**	**21**	—	(9)	9
Wholesale and retail	**71**	**(87)**	**158**	58	(167)	225
Real estate and construction	**62**	**(58)**	**120**	84	(134)	218
Oil and gas	**20**	**—**	**20**	—	—	—
Transportation	**15**	**(23)**	**38**	1	(42)	43
Automotive	**4**	**(12)**	**16**	20	(34)	54
Agriculture	**21**	**(25)**	**46**	18	(40)	58
Government	**12**	**(27)**	**39**	—	(8)	8
Hotels and leisure	**11**	**(7)**	**18**	42	(12)	54
Mining and primary metals	**36**	**(32)**	**68**	4	(40)	44
Utilities	**1**	**(2)**	**3**	4	(17)	21
Health care	**7**	**(9)**	**16**	3	(15)	18
Telecommunications and cable	**—**	**(4)**	**4**	88	(38)	126
Media	**—**	**(6)**	**6**	2	(7)	9
Chemical	**—**	**(8)**	**8**	—	(33)	33
Food and beverage	**22**	**(10)**	**32**	1	(37)	38
Forest products	**13**	**(15)**	**28**	5	(15)	20
Other	**46**	**(44)**	**90**	49	(58)	107
	355	**(376)**	**731**	379	(706)	1,085
	601	**(943)**	**1,544**	570	(1,300)	1,870
Allowance for credit losses — general	**(1,298)**			(1,307)		
Net impaired loans after general allowance	**$ (697)**	**$ (943)**	**$1,544**	$ (737)	$ (1,300)	$1,870

Capital

Table 38
Capital funding activity

Issues		Maturities/Redemptions/Repurchases	
Tier 1 Capital		Tier 1 Capital	
Preferred shares		**Capital instruments liabilities**	
January 24, 2007	$345,000,000 Series 14 Non-cumulative Preferred Shares	October 31, 2007	$250,000,000 Non-cumulative Preferred Shares issued by Scotia Mortgage Investment Corporation (Scotia BOOMS)
April 5, 2007	$300,000,000 Series 15 Non-cumulative Preferred Shares		
April 17, 2007	$45,000,000 Series 15 Non-cumulative Preferred Shares		
October 12, 2007	$345,000,000 Series 16 Non-cumulative Preferred Shares		
Tier 2 Capital		Tier 2 Capital	
Trust subordinated notes		**Subordinated debt**	
October 31, 2007	$1,000,000,000 5.25% Scotiabank Trust Subordinated Notes — Series A issued through Scotiabank Subordinated Notes Trust	July 16, 2007	$500,000,000 6.25% debentures due July 16, 2012

Table 39
Risk-weighted assets

As at October 31 ($ billions)			**2007**		2006	
Conversion factor	Weighting factor		Gross	Risk-weighted	Gross	Risk-weighted
On-balance sheet						
—	0 — 20%	Cash resources	**$ 29.2**	**$ 4.3**	$ 23.4	$ 4.4
—	0 — 100%	Securities[1]	**88.8**	**10.7**	95.5	12.3
—	0 — 50%	Residential mortgages	**102.0**	**35.0**	89.4	30.3
—	0 — 100%	Loans and acceptances	**159.2**	**113.0**	148.6	103.5
—	0 — 100%	Other assets	**32.3**	**8.1**	22.1	8.2
		Total on-balance sheet	**411.5**	**171.1**	379.0	158.7
Off-balance sheet						
		Indirect credit instruments				
0 — 10%	0 — 100%	One year and under credit commitments	**67.9**	**1.9**	61.4	0.8
20%	0 — 100%	Short-term trade letters of credit	**1.2**	**0.1**	1.0	0.1
50%	0 — 100%	Longer-term credit commitments	**46.4**	**17.6**	44.5	17.7
50%	0 — 100%	Performance guarantees	**7.9**	**3.9**	8.4	4.2
100%	0 — 100%	Standby letters of credit, letters of guarantee, securities lending and other commitments	**24.4**	**7.4**	22.1	6.4
			147.8	**30.9**	137.4	29.2

		Interest rate instruments				
0 — 1.5%	0 — 50%	Futures and forward rate agreements	**120.4**	**—**	148.0	—
0 — 1.5%	0 — 50%	Interest rate swaps	**565.3**	**1.5**	472.1	1.3
0 — 1.5%	0 — 50%	Interest rate options	**96.7**	**—**	66.1	0.1
			782.4	**1.5**	686.2	1.4
		Foreign exchange instruments				
1 — 7.5%	0 — 50%	Futures and foreign exchange contracts	**276.9**	**2.9**	197.0	1.4
1 — 7.5%	0 — 50%	Currency swaps	**97.5**	**3.2**	85.4	2.1
1 — 7.5%	0 — 50%	Currency options	**5.2**	**0.1**	5.2	—
			379.6	**6.2**	287.6	3.5
		Other derivative instruments				
6 — 10%	0 — 50%	Equity swaps and options	**38.3**	**0.9**	31.3	0.7
6 — 15%	0 — 50%	Credit derivatives	**80.6**	**1.6**	34.8	0.7
7 — 15%	0 — 50%	Other	**6.1**	**0.3**	4.8	0.3
			125.0	**2.8**	70.9	1.7
		Total off-balance sheet	**1,434.8**	**41.4**	1,182.1	35.8
		Total gross and risk-weighted assets	**1,846.3**	**212.5**	1,561.1	194.5
		Impact of master netting		**(4.2)**		(2.5)
		Market risk — risk assets equivalent[1]		**10.0**		5.0
		Total	**$1,846.3**	**$ 218.3**	$1,561.1	$ 197.0

(1) Includes assets which are subject to market risk. The risk weighting of these assets is included in “Market risk — risk assets equivalent.”

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Revenues and expenses

Table 40
Volume/rate analysis of changes in net interest income

Taxable equivalent basis[1] For the fiscal years ($ millions)	**2007 versus 2006** Increase (decrease) due to change in: Average volume	Average rate	Net change	2006 versus 2005 Increase (decrease) due to change in: Average volume	Average rate	Net change
Net interest income						
Total earning assets	**$ 2,788**	**$ 656**	**$ 3,444**	$ 1,930	$ 2,063	$ 3,993
Total interest-bearing liabilities	**(1,773)**	**(890)**	**(2,663)**	(1,130)	(2,212)	(3,342)
Change in net interest income	**$ 1,015**	**$ (234)**	**$ 781**	$ 800	$ (149)	$ 651

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

Table 41
Other income

For the fiscal years ($ millions)	**2007**	2006	2005	2004	2003	2007 versus 2006
Card revenues	**$ 366**	$ 307	$ 251	$ 231	$ 204	**19%**
Deposit and payment services						
Deposit services	**652**	622	581	536	479	**5**
Other payment services	**165**	144	120	110	114	**15**
	817	766	701	646	593	**7**
Mutual funds	**296**	241	193	171	161	**23**
Investment management, brokerage and trust services						
Retail brokerage	**553**	481	427	335	280	**15**
Investment management and custody	**87**	70	62	53	53	**24**
Personal and corporate trust	**120**	115	111	116	122	**4**
	760	666	600	504	455	**14**
Credit fees						
Commitment and other credit fees	**403**	414	436	477	565	**(3)**
Acceptance fees	**127**	116	106	106	119	**10**
	530	530	542	583	684	**—**
Trading revenues	**450**	637	594	476	501	**(29)**
Investment banking						
Underwriting fees and other commissions	**498**	453	493	477	472	**10**
Foreign exchange and other	**239**	206	187	171	201	**16**
	737	659	680	648	673	**12**
Net gain on securities, other than trading	**488**	371	414	477	159	**31**
Other	**948**	623	554	584	585	**52**
Total other income	**$5,392**	$4,800	$4,529	$4,320	$4,015	**12%**

Percentage increase (decrease) over previous year	**12%**	6%	5%	8%	2%

Table 42
Non-interest expenses and productivity

For the fiscal years ($ millions)	**2007**	2006	2005	2004	2003	2007 versus 2006
Salaries and employee benefits						
Salaries	**$ 2,315**	$ 2,100	$ 1,963	$ 1,933	$ 2,001	**10%**
Performance-based compensation	**1,017**	936	880	817	801	**9**
Stock-based compensation	**133**	164	140	174	119	**(19)**
Pensions and other employee benefits	**518**	568	505	528	440	**(9)**
	3,983	3,768	3,488	3,452	3,361	**6**
Premises and technology						
Net premises rent	**197**	181	176	170	180	**9**
Premises repairs and maintenance	**75**	60	50	46	44	**25**
Property taxes	**65**	61	61	58	56	**7**
Computer equipment, software and data processing	**603**	549	519	509	498	**10**
Depreciation	**221**	192	173	189	208	**15**
Other premises costs	**192**	171	169	167	170	**12**
	1,353	1,214	1,148	1,139	1,156	**11**
Communications						
Telecommunications	**73**	68	64	63	68	**8**
Stationery, postage and courier	**227**	208	191	185	183	**9**
	300	276	255	248	251	**9**
Advertising and business development						
Advertising and promotion	**193**	126	139	113	103	**53**
Travel and business development	**118**	106	93	97	96	**11**
	311	232	232	210	199	**34**
Professional	**227**	174	186	163	141	**30**
Business and capital taxes						
Business taxes	**107**	98	91	89	90	**8**
Capital taxes	**36**	35	56	53	54	**5**
	143	133	147	142	144	**8**
Other						
Employee training	**53**	47	45	43	37	**14**
Amortization of goodwill and other intangibles	**46**	38	29	27	29	**22**
Other	**578**	561	513	438	382	**3**
	677	646	587	508	448	**5**
Total before the undernoted	**6,994**	6,443	6,043	5,862	5,700	**9**
Loss on disposal of subsidiary operations[1]	**—**	—	—	—	31	**—**
Total non-interest expenses	**$ 6,994**	$ 6,443	$ 6,043	$ 5,862	$ 5,731	**9%**
Productivity ratio (TEB)[2]	**53.7%**	55.3%	56.3%	56.9%	55.9%	

(1) The loss on disposal of subsidiary operation was incurred for Scotiabank Quilmes.

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

Table 43
Taxes

For the fiscal years ($ millions)	**2007**	2006	2005	2004	2003	2007 versus 2006
Income taxes						
Provision for income taxes	**$ 1,063**	$ 872	$ 847	$ 786	$ 777[1]	**22%**
Taxable equivalent adjustment[2]	**531**	440	326	274	278	**21**
Provision for income taxes (TEB)[2]	**1,594**	1,312	1,173	1,060	1,055	**21**
Other taxes						
Payroll taxes	**164**	152	137	139	139	**8**
Business and capital taxes	**143**	133	147	142	144	**8**
Goods and services and other	**143**	128	132	121	110	**12**
Total other taxes	**450**	413	416	402	393	**9**
Total taxes[3]	**$ 2,044**	$ 1,725	$ 1,589	$ 1,462	$ 1,448	**19%**

(1) Includes provision for income tax of $3 related to the loss on disposal of subsidiary operations for Scotiabank Quilmes in 2003.

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

(3) Comprising $1,175 of Canadian taxes (2006 — $1,035; 2005 — $988; 2004 — $910; 2003 — $953) and $869 of foreign taxes (2006 — $690; 2005 — $601; 2004 — $552; 2003 — $495).

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Other information

Table 44
Components of net income as a percentage of average total assets[1]

Taxable equivalent basis For the fiscal years (%)	**2007**	2006	2005	2004	2003
Net interest income	**1.89%**	1.95%	2.00%	2.10%	2.16%
Provision for credit losses	**(0.07)**	(0.06)	(0.07)	(0.14)	(0.31)
Other income	**1.34**	1.37	1.46	1.52	1.39
Net interest and other income	**3.16**	3.26	3.39	3.48	3.24
Non-interest expenses	**(1.73)**	(1.84)	(1.95)	(2.06)	(1.98)
Net income before the undernoted:	**1.43**	1.42	1.44	1.42	1.26
Provision for income taxes and non-controlling interest	**(0.43)**	(0.40)	(0.40)	(0.40)	(0.42)
Net income	**1.00%**	1.02%	1.04%	1.02%	0.84%
Average total assets ($ billions)	**$ 403.5**	$ 350.7	$ 309.4	$ 284.0	$ 288.5

(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: 2007 — $531 million; 2006 — $440 million; 2005 — $326 million; 2004 — $274 million; 2003 — $278 million.

Table 45
General allowance and unrealized gains (losses) on available-for-sale securities

As at October 31 ($ millions)	**2007**	2006	2005	2004	2003
General allowance	**$ 1,298**	$ 1,307	$ 1,330	$ 1,375	$ 1,475
Unrealized gains (losses) on investment securities					
Common and preferred shares	**$ 456**	$ 519	$ 499	$ 502	$ 164
Emerging market bonds	**522**	584	574	507	512
Other fixed income	**(1)**	(102)	(38)	39	27
	$ 977	$ 1,001	$ 1,035	$ 1,048	$ 703

Table 46
Assets under administration and management

As at September 30 ($ billions)	**2007**	2006	2005	2004	2003
Assets under administration					
Personal					
Retail brokerage	**$ 77.4**	$ 69.7	$ 64.2	$ 54.2	$ 47.4
Investment management and trust	**53.1**	59.5	57.0	53.4	56.6
	130.5	129.2	121.2	107.6	104.0
Mutual funds	**24.8**	19.8	18.4	15.8	14.2
Institutional	**39.8**	42.9	31.8	33.4	43.8
Total	**$ 195.1**	$ 191.9	$ 171.4	$ 156.8	$ 162.0
Assets under management					
Personal	**$ 11.2**	$ 10.0	$ 9.4	$ 7.5	$ 7.0
Mutual funds	**15.9**	13.2	13.4	11.8	11.6
Institutional	**4.3**	4.6	3.8	1.9	1.4
Total	**$ 31.4**	$ 27.8	$ 26.6	$ 21.2	$ 20.0

Table 47

Fees paid to the shareholders' auditors

For the fiscal years ($ millions)	**2007**	2006 [1]
Audit services	**$ 13.4**	$ 12.8
Audit-related services	**0.4**	0.1
Tax services outside of the audit scope	**0.2**	0.3
Other non-audit services	**0.3**	0.1
	$ 14.3	$ 13.3

(1) PricewaterhouseCoopers LLP ceased to be the Shareholders' Auditors as of its resignation on December 20, 2005. Up to December 20, 2005, fees attributable to PricewaterhouseCoopers LLP were approximately $0.4 million.

Table 48
Selected quarterly information

As at and for the quarter ended	2007 Q4	2007 Q3	2007 Q2	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 Q1
Operating results ($ millions)								
Net interest income	**1,716**	**1,812**	**1,794**	**1,776**	1,652	1,716	1,531	1,509
Net interest income (TEB[1])	**1,932**	**1,913**	**1,903**	**1,881**	1,783	1,816	1,644	1,605
Total revenue	**3,078**	**3,201**	**3,102**	**3,109**	2,868	2,889	2,717	2,734
Total revenue (TEB[1])	**3,294**	**3,302**	**3,211**	**3,214**	2,999	2,989	2,830	2,830
Provision for credit losses	**95**	**92**	**20**	**63**	32	74	35	75
Non-interest expenses	**1,792**	**1,752**	**1,726**	**1,724**	1,708	1,608	1,565	1,562
Provision for income taxes	**204**	**296**	**286**	**277**	203	244	200	225
Provision for income taxes (TEB[1])	**420**	**397**	**395**	**382**	334	344	313	321
Net income	**954**	**1,032**	**1,039**	**1,020**	897	936	894	852
Net income available to common shareholders	**938**	**1,016**	**1,028**	**1,012**	890	928	887	844
Operating performance								
Basic earnings per share ($)	**0.95**	**1.03**	**1.04**	**1.02**	0.90	0.94	0.90	0.85
Diluted earnings per share ($)	**0.95**	**1.02**	**1.03**	**1.01**	0.89	0.93	0.89	0.84
Return on equity (%)[1][2]	**21.0**	**21.7**	**22.4**	**22.1**	21.1	22.8	23.2	21.6
Productivity ratio (%)(TEB[1])	**54.4**	**53.0**	**53.8**	**53.6**	56.9	53.8	55.3	55.2
Net interest margin on total average assets (%)(TEB[1])	**1.87**	**1.86**	**1.93**	**1.91**	1.89	1.98	1.97	1.97
Balance sheet information ($ billions)								
Cash resources and securities	**118.0**	**121.6**	**131.3**	**126.9**	118.9	115.5	113.8	102.0
Loans and acceptances[2]	**238.7**	**233.0**	**226.3**	**222.7**	212.3	202.9	192.2	180.7
Total assets	**411.5**	**408.1**	**411.7**	**396.5**	379.0	365.0	357.0	325.0
Deposits	**288.4**	**287.0**	**291.6**	**277.0**	263.9	255.2	247.6	227.5
Preferred shares	**1.6**	**1.3**	**1.3**	**0.9**	0.6	0.6	0.6	0.6
Common shareholders' equity[2]	**17.2**	**18.4**	**18.7**	**18.9**	16.9	16.5	15.8	15.6
Assets under administration	**195.1**	**198.8**	**208.4**	**203.1**	191.9	180.9	188.5	174.1
Assets under management	**31.4**	**31.0**	**30.4**	**29.2**	27.8	26.6	26.9	26.2
Capital measures (%)								
Tier 1 capital ratio	**9.3**	**9.7**	**10.1**	**10.4**	10.2	10.0	10.2	10.8
Total capital ratio	**10.5**	**10.6**	**11.4**	**11.7**	11.7	11.6	11.9	12.7
Common equity to risk-weighted assets	**7.8**	**8.3**	**8.6**	**9.0**	8.8	8.9	9.0	9.4
Tangible common equity to risk-weighted assets[1]	**7.2**	**7.7**	**8.0**	**8.4**	8.3	8.4	8.5	9.0
Risk-weighted assets ($ billions)	**218.3**	**219.8**	**213.1**	**206.8**	197.0	190.3	180.1	168.9

Credit quality								
Net impaired loans[3] ($ millions)	**601**	**584**	**579**	**579**	570	479	579	659
General allowance for credit losses ($ millions)	**1,298**	**1,298**	**1,298**	**1,323**	1,307	1,330	1,330	1,330
Net impaired loans as a % of loans and acceptances[2][3]	**0.25**	**0.25**	**0.26**	**0.26**	0.27	0.24	0.30	0.36
Specific provision for credit losses as a % of average loans and acceptances (annualized)[2]	**0.16**	**0.16**	**0.08**	**0.12**	0.18	0.15	0.08	0.17
Common share information								
Share price ($)								
High	**53.49**	**54.67**	**54.73**	**53.39**	49.50	47.24	48.67	49.80
Low	**46.70**	**48.91**	**49.34**	**48.80**	45.36	41.55	45.03	42.89
Close	**53.48**	**49.45**	**53.39**	**50.76**	49.30	45.55	46.52	46.25
Shares outstanding (millions)								
Average — Basic	**983**	**988**	**992**	**991**	989	988	988	989
Average — Diluted	**991**	**996**	**1,001**	**1,001**	1,000	999	1,001	1,002
End of period	**984**	**982**	**990**	**993**	990	988	988	988
Dividends per share ($)	**0.45**	**0.45**	**0.42**	**0.42**	0.39	0.39	0.36	0.36
Dividend yield (%)	**3.6**	**3.5**	**3.2**	**3.3**	3.3	3.5	3.1	3.1
Dividend payout ratio[4] (%)	**47.1**	**43.7**	**40.6**	**41.2**	43.3	41.5	40.1	42.2
Market capitalization ($ billions)	**52.6**	**48.6**	**52.8**	**50.4**	48.8	45.0	45.9	45.7
Book value per common share ($)	**17.45**	**18.71**	**18.90**	**18.99**	17.13	16.66	15.98	15.76
Market value to book value multiple	**3.1**	**2.6**	**2.8**	**2.7**	2.9	2.7	2.9	2.9
Price to earnings multiple (trailing 4 quarters)	**13.2**	**12.4**	**13.7**	**13.5**	13.7	13.0	13.9	14.2

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

(2) Certain comparative amounts have been restated to conform with current period presentation.

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

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

SUPPLEMENTARY DATA

Table 49
Eleven-year statistical review
Consolidated Balance Sheet

As at October 31 ($ millions)	**2007**	2006	2005	2004
Assets				
Cash resources	**$ 29,195**	$ 23,376	$ 20,505	$ 17,155
Securities				
Trading	**59,685**	62,490	50,007	43,056
Available-for-sale	**28,426**	—	—	—
Investment	**—**	32,870	23,285	15,576
Equity accounted investments	**724**	142	167	141
	88,835	95,502	73,459	58,773
Securities purchased under resale agreements	**22,542**	25,705	20,578	17,880
Loans				
Residential mortgages	**102,154**	89,590	75,520	69,018
Personal and credit cards	**41,734**	39,058	34,695	30,182
Business and government	**85,500**	76,733	62,681	57,384
	229,388	205,381	172,896	156,584
Allowance for credit losses	**2,241**	2,607	2,469	2,696
	227,147	202,774	170,427	153,888
Other				
Customers' liability under acceptances	**11,538**	9,555	7,576	7,086
Derivative instruments[1]	**21,960**	12,098	12,867	15,488
Land, buildings and equipment	**2,271**	2,256	1,934	1,872
Other assets[1]	**8,022**	7,740	6,679	7,070
	43,791	31,649	29,056	31,516
	$411,510	$379,006	$314,025	$279,212
Liabilities and shareholders' equity				
Deposits				
Personal	**$100,823**	$ 93,450	$ 83,953	$ 79,020
Business and government	**161,229**	141,072	109,389	94,125
Banks	**26,406**	29,392	24,103	22,051
	288,458	263,914	217,445	195,196
Other				
Acceptances	**11,538**	9,555	7,576	7,086
Obligations related to securities sold under repurchase agreements	**28,137**	33,470	26,032	19,428
Obligations related to securities sold short	**16,039**	13,396	11,250	7,585
Derivative instruments[1]	**24,689**	12,869	13,004	16,002
Other liabilities[1]	**21,138**	24,799	18,983	13,785
Non-controlling interest in subsidiaries	**497**	435	306	280
	102,038	94,524	77,151	64,166
Subordinated debentures	**1,710**	2,271	2,597	2,615
Capital instrument liabilities	**500**	750	750	2,250
Shareholders' equity				
Capital stock				
Preferred shares	**1,635**	600	600	300
Common shares and contributed surplus	**3,566**	3,425	3,317	3,229
Retained earnings	**17,460**	15,843	14,126	13,239
Accumulated other comprehensive income (loss)	**(3,857)**	(2,321)	(1,961)	(1,783)

	18,804	17,547	16,082	14,985
	$411,510	$379,006	$314,025	$279,212

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

2003	2002	2001	2000	1999	1998	1997
$ 20,581	$ 20,273	$ 20,160	$ 18,744	$ 17,115	$ 22,900	$ 18,174
42,899	34,592	27,834	21,821	13,939	12,108	10,908
—	—	—	—	—	—	—
20,141	21,439	25,256	19,162	19,480	16,718	16,523
152	163	194	403	550	674	568
63,192	56,194	53,284	41,386	33,969	29,500	27,999
22,648	32,262	27,500	23,559	13,921	11,189	8,520
61,646	56,295	52,592	50,037	47,916	45,884	41,727
26,277	23,363	20,116	17,988	16,748	18,801	17,764
64,313	77,181	79,460	78,172	69,873	76,542	59,353
152,236	156,839	152,168	146,197	134,537	141,227	118,844
3,217	3,430	4,236	2,853	2,599	1,934	1,625
149,019	153,409	147,932	143,344	131,938	139,293	117,219
6,811	8,399	9,301	8,807	9,163	8,888	7,575
15,308	15,821	15,886	8,244	8,039	13,675	8,925
1,944	2,101	2,325	1,631	1,681	1,759	1,716
6,389	7,921	8,037	7,456	6,865	6,384	5,025
30,452	34,242	35,549	26,138	25,748	30,706	23,241
$ 285,892	$ 296,380	$ 284,425	$ 253,171	$ 222,691	$ 233,588	$ 195,153
$ 76,431	$ 75,558	$ 75,573	$ 68,972	$ 65,715	$ 62,656	$ 59,239
93,541	93,830	80,810	76,980	64,070	70,779	56,928
22,700	26,230	29,812	27,948	26,833	32,925	22,808
192,672	195,618	186,195	173,900	156,618	166,360	138,975
6,811	8,399	9,301	8,807	9,163	8,888	7,575
28,686	31,881	30,627	23,792	16,781	14,603	11,559
9,219	8,737	6,442	4,297	2,833	3,121	3,739
14,758	15,500	15,453	8,715	8,651	14,360	8,872
14,145	15,678	15,369	14,586	11,667	9,787	9,731
326	662	586	229	198	173	137
73,945	80,857	77,778	60,426	49,293	50,932	41,613
2,661	3,878	5,344	5,370	5,374	5,482	5,167
2,500	2,225	1,975	1,975	1,475	1,475	1,468
300	300	300	300	300	300	—
3,141	3,002	2,920	2,765	2,678	2,625	2,567
11,747	10,398	9,674	8,275	6,956	6,257	5,358
(1,074)	102	239	160	(3)	157	5
14,114	13,802	13,133	11,500	9,931	9,339	7,930
$ 285,892	$ 296,380	$ 284,425	$ 253,171	$ 222,691	$ 233,588	$ 195,153

SUPPLEMENTARY DATA

Table 50
Consolidated Statement of Income

For the year ended October 31 ($ millions)	**2007**	2006	2005	2004
Interest income				
Loans	**$13,985**	$11,575	$ 9,236	$ 8,480
Securities	**4,680**	4,124	3,104	2,662
Securities purchased under resale agreements	**1,258**	1,102	817	594
Deposits with banks	**1,112**	881	646	441
	21,035	17,682	13,803	12,177
Interest expense				
Deposits	**10,850**	8,589	5,755	4,790
Subordinated debentures	**116**	130	134	112
Capital instrument liabilities	**53**	53	53	164
Other	**2,918**	2,502	1,990	1,410
	13,937	11,274	7,932	6,476
Net interest income	**7,098**	6,408	5,871	5,701
Provision for credit losses	**270**	216	230	390
Net interest income after provision for credit losses	**6,828**	6,192	5,641	5,311
Other income	**5,392**	4,800	4,529	4,320
Net interest and other income	**12,220**	10,992	10,170	9,631
Non-interest expenses				
Salaries and employee benefits	**3,983**	3,768	3,488	3,452
Other[(2)]	**3,011**	2,675	2,555	2,410
Restructuring provisions following acquisitions	**—**	—	—	—
	6,994	6,443	6,043	5,862
Income before the undernoted	**5,226**	4,549	4,127	3,769
Provision for income taxes	**1,063**	872	847	786
Non-controlling interest in net income of subsidiaries	**118**	98	71	75
Net income	**$ 4,045**	$ 3,579	$ 3,209	$ 2,908
Preferred dividends paid and other	**51**	30	25	16
Net income available to common shareholders	**$ 3,994**	$ 3,549	$ 3,184	$ 2,892
Average number of common shares outstanding (millions):				
Basic	**989**	988	998	1,010
Diluted	**997**	1,001	1,012	1,026
Earnings per common share (in dollars):				
Basic	**$ 4.04**	$ 3.59	$ 3.19	$ 2.87
Diluted	**$ 4.01**	$ 3.55	$ 3.15	$ 2.82
Dividends per common share (in dollars)	**$ 1.74**	$ 1.50	$ 1.32	$ 1.10

(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) in 2003 and 2002, a loss on disposal of subsidiary operations of $31 and $237, respectively, and (b) in 1997, a $26 writeoff of goodwill.

2003	2002	2001	2000	1999[1]	1998	1997
$ 9,073	$ 9,635	$ 11,530	$ 11,044	$ 9,972	$ 9,695	$ 7,718
2,859	3,087	3,062	2,286	1,874	1,815	1,636
872	1,073	1,519	1,085	682	574	364
442	573	872	916	943	1,007	770
13,246	14,368	16,983	15,331	13,471	13,091	10,488
5,222	5,519	8,233	8,192	7,284	7,303	5,714
139	203	303	324	314	354	260
182	158	136	120	99	99	98
1,735	1,971	2,247	1,616	1,201	1,057	797
7,278	7,851	10,919	10,252	8,898	8,813	6,869
5,968	6,517	6,064	5,079	4,573	4,278	3,619
893	2,029	1,425	765	635	595	35
5,075	4,488	4,639	4,314	3,938	3,683	3,584
4,015	3,942	4,071	3,665	3,183	2,858	2,683
9,090	8,430	8,710	7,979	7,121	6,541	6,267
3,361	3,344	3,220	2,944	2,627	2,501	2,202
2,370	2,630	2,442	2,209	2,149	1,945	1,607
—	—	—	(34)	(20)	—	250
5,731	5,974	5,662	5,119	4,756	4,446	4,059
3,359	2,456	3,048	2,860	2,365	2,095	2,208
777	594	869	983	860	755	758
160	154	102	43	46	38	34
$ 2,422	$ 1,708	$ 2,077	$ 1,834	$ 1,459	$ 1,302	$ 1,416
16	16	16	16	16	5	1
$ 2,406	$ 1,692	$ 2,061	$ 1,818	$ 1,443	$ 1,297	$ 1,415
1,010	1,009	1,001	991	986	982	958
1,026	1,026	1,018	1,003	996	993	966
$ 2.38	$ 1.68	$ 2.06	$ 1.83	$ 1.46	$ 1.32	$ 1.48
$ 2.34	$ 1.65	$ 2.02	$ 1.81	$ 1.45	$ 1.31	$ 1.46
$ 0.84	$ 0.73	$ 0.62	$ 0.50	$ 0.44	$ 0.40	$ 0.37

SUPPLEMENTARY DATA

Table 51
Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	**2007**	2006	2005	2004
Preferred shares				
Balance at beginning of year	**$ 600**	$ 600	$ 300	$ 300
Issued	**1,035**	—	300	—
Balance at end of year	**1,635**	600	600	300
Common shares and contributed surplus				
Balance of common shares at beginning of year	**3,425**	3,316	3,228	3,140
Issued	**184**	135	172	117
Purchased for cancellation	**(43)**	(26)	(84)	(29)
Balance of common shares at end of year	**3,566**	3,425	3,316	3,228
Contributed surplus: Fair value of stock options	**—**	—	1	1
Total	**3,566**	3,425	3,317	3,229
Retained earnings				
Balance at beginning of year	**15,843**	14,126	13,239	11,747
Adjustments	**(61)**[1]	(25)[2]	—	—
Net income	**4,045**	3,579	3,209	2,908
Dividends: Preferred	**(51)**	(30)	(25)	(16)
Common	**(1,720)**	(1,483)	(1,317)	(1,110)
Purchase of shares and premium on redemption	**(586)**	(324)	(973)	(290)
Other	**(10)**	—	(7)	—
Balance at end of year	**17,460**	15,843	14,126	13,239
Accumulated other comprehensive income (loss)[5]				
Balance at beginning of year	**(2,321)**	(1,961)	(1,783)	(1,074)
Cumulative effect of adopting new accounting policies	**683**	—	—	—
Other comprehensive income (loss)	**(2,219)**	(360)	(178)	(709)
Balance at end of year	**(3,857)**	(2,321)	(1,961)	(1,783)
Total shareholders' equity at end of year	**$18,804**	$17,547	$16,082	$14,985

Consolidated Statement of Comprehensive income[1]

For the year ended October 31 ($ millions)	**2007**	2006	2005	2004
Comprehensive Income				
Net income	**$ 4,045**	$ 3,579	$ 3,209	$ 2,908
Other comprehensive income (loss), net of income taxes:				
Net change in unrealized foreign currency translation losses	**(2,228)**	(360)	(178)	(709)
Net change in unrealized gains on available-for-sale securities	**(67)**	—	—	—
Net change in gains (losses) on derivative instruments designated as cash flow hedges	**76**	—	—	—
Other comprehensive income (loss)	**(2,219)**	(360)	(178)	(709)
Comprehensive income	**$ 1,826**	$ 3,219	$ 3,031	$ 2,199

(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 86).

2003	2002	2001	2000	1999	1998	1997
$ 300	$ 300	$ 300	$ 300	$ 300	$ —	$ —
—	—	—	—	—	300	—
300	300	300	300	300	300	—
3,002	2,920	2,765	2,678	2,625	2,567	2,161
163	101	155	87	53	58	406
(25)	(19)	—	—	—	—	—
3,140	3,002	2,920	2,765	2,678	2,625	2,567
1	—	—	—	—	—	—
3,141	3,002	2,920	2,765	2,678	2,625	2,567
10,398	9,674	8,275	6,956	6,257	5,358	4,301
—	(76)[3]	(39)[4]	—	(314)[5]	—	—
2,422	1,708	2,077	1,834	1,459	1,302	1,416
(16)	(16)	(16)	(16)	(16)	(5)	(1)
(849)	(732)	(621)	(496)	(429)	(393)	(355)
(201)	(154)	—	—	—	—	—
(7)	(6)	(2)	(3)	(1)	(5)	(3)
11,747	10,398	9,674	8,275	6,956	6,257	5,358
102	239	160	(3)	157	5	(38)
—	—	—	—	—	—	—
(1,176)	(137)	79	163	(160)	152	43
(1,074)	102	239	160	(3)	157	5
$ 14,114	$ 13,802	$ 13,133	$ 11,500	$ 9,931	$ 9,339	$ 7,930

2003	2002	2001	2000	1999	1998	1997
$ 2,422	$ 1,708	$ 2,077	$ 1,834	$ 1,459	$ 1,302	$ 1,416
(1,176)	(137)	79	163	(160)	152	43
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(1,176)	(137)	79	163	(160)	152	43
$ 1,246	$ 1,571	$ 2,156	$ 1,997	$ 1,299	$ 1,454	$ 1,459

SUPPLEMENTARY DATA

Table 52
Other Statistics

For the year ended October 31	**2007**	2006	2005	2004
Operating performance				
Basic earnings per share ($)	**4.04**	3.59	3.19	2.87
Diluted earnings per share ($)	**4.01**	3.55	3.15	2.82
Return on equity (%)	**22.0**	22.1	20.9	19.9
Productivity ratio (%)(TEB)	**53.7**	55.3	56.3	56.9
Return on assets (%)	**1.00**	1.02	1.04	1.02
Net interest margin on total average assets (%)(TEB)	**1.89**	1.95	2.00	2.10
Capital measures				
Tier 1 capital ratio (%)	**9.3**	10.2	11.1	11.5
Total capital ratio (%)	**10.5**	11.7	13.2	13.9
Assets to capital ratio[2]	**18.2**	17.1	15.1	13.8
Common equity to risk-weighted assets (%)	**7.8**	8.8	9.7	9.9
Tangible common equity to risk-weighted assets[7] (%)	**7.2**	8.3	9.3	9.7
Common share information				
Share price ($):				
High	**54.73**	49.80	44.22	40.00
Low	**46.70**	41.55	36.41	31.08
Close	**53.48**	49.30	42.99	39.60
Number of shares outstanding (millions)	**984**	990	990	1,009
Dividends per share ($)	**1.74**	1.50	1.32	1.10
Dividend payout (%)[3]	**43.1**	41.8	41.4	38.4
Dividend yield (%)[4]	**3.4**	3.3	3.3	3.1
Price to earnings multiple[5]	**13.2**	13.7	13.5	13.8
Book value per common share ($)	**17.45**	17.13	15.64	14.56
Other information				
Average total assets ($ millions)	**403,475**	350,709	309,374	283,986
Number of branches and offices	**2,331**	2,191	1,959	1,871
Number of employees[6]	**58,113**	54,199	46,631	43,928
Number of automated banking machines	**5,283**	4,937	4,449	4,219

(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) 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.

(3) Dividend payments as a percentage of net income available to common shareholders.

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

(5) Based on the closing common share price.

(6) Includes all personnel (part-time stated on a full-time equivalent basis) of the Bank and all of its subsidiaries.

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

2003	2002	2001	2000	1999	1998	1997
2.38	1.68	2.06	1.83	1.46[1]	1.32	1.48
2.34	1.65	2.02	1.81	1.45[1]	1.31	1.46
17.6	13.0	17.3	17.6	15.3[1]	15.3	20.2
55.9	55.7	54.6	57.3	60.1	61.2	63.4
0.84	0.58	0.76	0.77	0.64[1]	0.61	0.79
2.16	2.29	2.32	2.21	2.07	2.06	2.08
10.8	9.9	9.3	8.6	8.1	7.2	6.9
13.2	12.7	13.0	12.2	11.9	10.6	10.4
14.4	14.5	13.5	13.7	13.5	14.9	14.2
9.2	8.6	8.1	7.3	6.9	6.0	5.8
8.9	8.3	7.8	7.0	6.7	5.7	5.6
33.70	28.10	25.25	22.83	18.45	22.35	17.05
22.28	21.01	18.65	13.03	14.30	11.40	10.28
32.74	22.94	21.93	21.75	16.80	16.10	15.54
1,011	1,008	1,008	996	989	984	980
0.84	0.73	0.62	0.50	0.44	0.40	0.37
35.3	43.2	30.1	27.3	29.7[1]	30.3	25.1
3.0	3.0	2.8	2.8	2.7	2.4	2.7
13.8	13.7	10.6	11.9	11.5[1]	12.2	10.5
13.67	13.39	12.74	11.25	9.74	9.18	8.09
288,513	296,852	271,843	238,664	229,037	213,973	179,176
1,850	1,847	2,005	1,695	1,654	1,741	1,658
43,986	44,633	46,804	40,946	40,894	42,046	38,648
3,918	3,693	3,761	2,669	2,322	2,244	2,030

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2007 Consolidated Financial Statements

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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 2007 and 2006 consolidated financial statements of the Bank in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and have expressed their opinions upon completion of such audits in the following report to the shareholders. The Shareholders' Auditors have full and free access to, and meet periodically with, the Audit and Conduct Review Committee to discuss their audit, including any findings as to the integrity of the Bank's accounting, financial reporting and related matters.

Rick Waugh
President and Chief Executive Officer

Luc Vanneste
Executive Vice-President
and Chief Financial Officer

Toronto, Canada

December 6, 2007

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, 2007 and 2006 and the Consolidated Statements of Income, Changes in Shareholders' Equity, Comprehensive Income, and Cash Flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Bank for the year ended October 31, 2005, prepared in accordance with Canadian generally accepted accounting principles, were audited in accordance with Canadian generally accepted auditing standards by KPMG LLP and PricewaterhouseCoopers LLP, who expressed an opinion without reservation on those statements in the Shareholders' Auditors' report dated November 29, 2005.

KPMG LLP
Chartered Accountants,
Licensed Public Accountants
Toronto, Canada

December 6, 2007

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

As at October 31 ($ millions)	**2007**	2006
Assets		
Cash resources		
Cash and non-interest-bearing deposits with banks	**$ 2,138**	$ 2,280
Interest-bearing deposits with banks	**23,011**	17,734
Precious metals	**4,046**	3,362
	29,195	23,376
Securities (Note 3)		
Trading	**59,685**	62,490
Available-for-sale	**28,426**	—
Investment	**—**	32,870
Equity accounted investments	**724**	142
	88,835	95,502
Securities purchased under resale agreements	**22,542**	25,705
Loans (Note 4)		
Residential mortgages	**102,154**	89,590
Personal and credit cards	**41,734**	39,058
Business and government	**85,500**	76,733
	229,388	205,381
Allowance for credit losses (Note 5 (b))	**2,241**	2,607
	227,147	202,774
Other		
Customers' liability under acceptances	**11,538**	9,555
Derivative instruments (Note 25 (d))	**21,960**	12,098
Land, buildings and equipment (Note 7)	**2,271**	2,256
Goodwill (Note 8)	**1,134**	873
Other intangible assets (Note 8)	**273**	294
Other assets (Note 9)	**6,615**	6,573
	43,791	31,649
	$411,510	$379,006
Liabilities and shareholders' equity		
Deposits (Note 10)		
Personal	**$100,823**	$ 93,450
Business and government	**161,229**	141,072
Banks	**26,406**	29,392
	288,458	263,914
Other		
Acceptances	**11,538**	9,555
Obligations related to securities sold under repurchase agreements	**28,137**	33,470
Obligations related to securities sold short	**16,039**	13,396
Derivative instruments (Note 25 (d))	**24,689**	12,869
Other liabilities (Note 11)	**21,138**	24,799
Non-controlling interest in subsidiaries	**497**	435
	102,038	94,524
Subordinated debentures (Note 12)	**1,710**	2,271
Capital instrument liabilities (Note 13)	**500**	750
Shareholders' equity		
Capital stock (Note 14)		
Preferred shares	**1,635**	600
Common shares and contributed surplus	**3,566**	3,425
Retained earnings	**17,460**	15,843

Accumulated other comprehensive income (loss) (Notes 1 and 15)	**(3,857)**	(2,321)
	18,804	17,547
	$411,510	$379,006

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)	2007[1]	2006	2005
Interest income			
Loans	**$13,985**	$11,575	$ 9,236
Securities	**4,680**	4,124	3,104
Securities purchased under resale agreements	**1,258**	1,102	817
Deposits with banks	**1,112**	881	646
	21,035	17,682	13,803
Interest expense			
Deposits	**10,850**	8,589	5,755
Subordinated debentures	**116**	130	134
Capital instrument liabilities	**53**	53	53
Other	**2,918**	2,502	1,990
	13,937	11,274	7,932
Net interest income	**7,098**	6,408	5,871
Provision for credit losses (Note 5 (b))	**270**	216	230
Net interest income after provision for credit losses	**6,828**	6,192	5,641
Other income			
Card revenues	**366**	307	251
Deposit and payment services	**817**	766	701
Mutual funds	**296**	241	193
Investment management, brokerage and trust services	**760**	666	600
Credit fees	**530**	530	542
Trading revenues	**450**	637	594
Investment banking	**737**	659	680
Net gain on securities, other than trading (Note 3 (c))	**488**	371	414
Other	**948**	623	554
	5,392	4,800	4,529
Net interest and other income	**12,220**	10,992	10,170
Non-interest expenses			
Salaries and employee benefits[2]	**3,983**	3,768	3,488
Premises and technology	**1,353**	1,214	1,148
Communications	**300**	276	255
Advertising and business development	**311**	232	232
Professional	**227**	174	186
Business and capital taxes	**143**	133	147
Other	**677**	646	587
	6,994	6,443	6,043
Income before the undernoted	**5,226**	4,549	4,127
Provision for income taxes (Note 17)	**1,063**	872	847
Non-controlling interest in net income of subsidiaries	**118**	98	71
Net income	**$ 4,045**	$ 3,579	$ 3,209
Preferred dividends paid	**51**	30	25
Net income available to common shareholders	**$ 3,994**	$ 3,549	$ 3,184
Average number of common shares outstanding (millions) (Note 19):			
Basic	**989**	988	998
Diluted	**997**	1,001	1,012
Earnings per common share (in dollars)[3] (Note 19):			
Basic	**$ 4.04**	$ 3.59	$ 3.19
Diluted	**$ 4.01**	$ 3.55	$ 3.15

Dividends per common share (in dollars)	**$ 1.74**	$ 1.50	$ 1.32

Certain comparative amounts have been reclassified to conform with current period presentation.

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(1) Refer to Note 1 for impact of adopting new accounting policies 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)	**2007**	2006	2005
Preferred shares (Note 14)			
Balance at beginning of year	**$ 600**	$ 600	$ 300
Issued	**1,035**	—	300
Balance at end of year	**1,635**	600	600
Common shares and contributed surplus			
Common shares (Note 14):			
Balance at beginning of year	**3,425**	3,316	3,228
Issued	**184**	135	172
Purchased for cancellation	**(43)**	(26)	(84)
Balance at end of year	**3,566**	3,425	3,316
Contributed surplus: Fair value of stock options (Note 16)	**—**	—	1
Total	**3,566**	3,425	3,317
Retained earnings			
Balance at beginning of year	**15,843**	14,126	13,239
Cumulative effect of adopting new accounting policies	**(61)**[1]	(25)[2]	—
	15,782	14,101	13,239
Net income	**4,045**	3,579	3,209
Dividends: Preferred	**(51)**	(30)	(25)
Common	**(1,720)**	(1,483)	(1,317)
Purchase of shares	**(586)**	(324)	(973)
Other	**(10)**	—	(7)
Balance at end of year	**17,460**	15,843	14,126
Accumulated other comprehensive income (loss)[1]			
Balance at beginning of year	**(2,321)**	(1,961)	(1,783)
Cumulative effect of adopting new accounting policies	**683**	—	—
Other comprehensive income (loss) (Note 15)	**(2,219)**	(360)	(178)
Balance at end of year	**(3,857)**	(2,321)	(1,961)
Total shareholders' equity at end of year	**$18,804**	$17,547	$16,082

Consolidated Statement of Comprehensive Income[1]

For the year ended October 31 ($ millions)	**2007**	2006	2005
Comprehensive income			
Net income	**$ 4,045**	$ 3,579	$ 3,209
Other comprehensive income (loss), net of income taxes (Note 15):			
Net change in unrealized foreign currency translation losses	**(2,228)**	(360)	(178)
Net change in unrealized gains on available-for-sale securities	**(67)**	—	—
Net change in gains (losses) on derivative instruments designated as cash flow hedges	**76**	—	—
Other comprehensive income (loss)	**(2,219)**	(360)	(178)
Comprehensive income	**$ 1,826**	$ 3,219	$ 3,031

Certain comparative amounts have been reclassified to conform with current period presentation.

(1) Refer to Note 1 for impact of new accounting policies as a result of new accounting standards related to financial instruments adopted in 2007.

(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)	**2007**	2006	2005
Cash flows from operating activities			
Net income	**$ 4,045**	$ 3,579	$ 3,209
Adjustments to determine net cash flows from (used in) operating activities:			
Depreciation and amortization	**267**	230	202
Provision for credit losses	**270**	216	230
Future income taxes	**(106)**	(178)	(231)
Net gain on securities, other than trading[1]	**(488)**	(371)	(414)
Net accrued interest receivable and payable	**18**	221	(264)
Trading securities	**334**	(13,042)	(7,014)
Derivative instruments, net	**932**	668	(492)
Other, net	**(3,261)**	2,713	1,452
	2,011	(5,964)	(3,322)
Cash flows from financing activities			
Deposits	**41,746**	44,014	22,282
Obligations related to securities sold under repurchase agreements	**(3,858)**	8,245	6,676
Obligations related to securities sold short	**3,848**	2,190	3,693
Subordinated debentures redemptions/repayments	**(500)**	(300)	—
Capital instrument liabilities redemptions/repayments	**(250)**	—	—
Preferred shares issued	**1,035**	—	—
Common shares issued	**112**	118	416
Common shares redeemed/purchased for cancellation	**(629)**	(350)	(1,057)
Cash dividends paid	**(1,771)**	(1,513)	(1,342)
Other, net	**3,391**	684	806
	43,124	53,088	31,474
Cash flows from investing activities			
Interest-bearing deposits with banks	**(7,087)**	(1,664)	(2,814)
Securities purchased under resale agreements	**1,897**	(5,633)	(2,808)
Loans, excluding securitizations	**(42,028)**	(31,978)	(21,102)
Loan securitizations	**3,756**	2,514	2,153
Securities, other than trading[1]			
Purchases	**(32,133)**	(41,326)	(26,200)
Maturities	**14,015**	18,011	12,955
Sales	**17,267**	15,146	10,724
Land, buildings and equipment, net of disposals	**(317)**	(256)	(168)
Other, net[2]	**(390)**	(2,099)	(276)
	(45,020)	(47,285)	(27,536)
Effect of exchange rate changes on cash and cash equivalents	**(257)**	(60)	(36)
Net change in cash and cash equivalents	**(142)**	(221)	580
Cash and cash equivalents at beginning of year	**2,280**	2,501	1,921
Cash and cash equivalents at end of year[3]	**$ 2,138**	$ 2,280	$ 2,501
Cash disbursements made for:			
Interest	**$ 13,625**	$ 10,559	$ 8,142
Income taxes	**$ 905**	$ 1,012	$ 907

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 $36 (2006 — $1; 2005 — $49) and

net of cash and cash equivalents at the date of acquisition of $6 (2006 — $167; 2005 — $17).

(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

2007 Consolidated Financial Statements

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1. Significant accounting policies

The consolidated financial statements of The Bank of Nova Scotia (the Bank) have been prepared in accordance with Section 308 of the Bank Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting policies conform, in all material respects, to Canadian GAAP. In addition, Note 27 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. Where new accounting policies have been adopted during the year, the effects of these changes have been discussed in the respective sections of this note.

Changes in Accounting Policies for Financial Instruments

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 are 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 respective notes.

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 have been reclassified to accumulated other comprehensive income (loss).

As a result of these changes, the Bank has recorded a net reduction of $61 million (net of income tax benefit of $31 million) to opening retained earnings. 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.

The most significant other balance sheet categories impacted on November 1, 2006, as a result of these new standards were as follows:

$ millions Balance sheet category	Increase/ (Decrease)	Explanation
Available-for-sale securities	$1,091	To record these securities at fair value
Future tax assets (Other assets)	$ (369)	To record future taxes on the components of accumulated other comprehensive income
Accumulated other comprehensive income (Note 15)	$ 683	After-tax impact related to net unrealized gains on available-for-sale securities and cash flow hedges

A new Statement of Comprehensive Income (Loss) now forms part of the Bank's consolidated financial statements and displays current period net income and other comprehensive income (see note 15). Accumulated other comprehensive income (loss) is a separate component of shareholders' equity. The Consolidated Statement of Comprehensive Income reflects changes in accumulated other comprehensive income, comprising changes in unrealized gains and losses on available-for-sale assets, the fair value of derivatives designated as cash flow hedges, to the extent they are effective, and foreign currency translation amounts

arising from self-sustaining foreign operations.

The Bank's accounting policy is to capitalize transaction costs relating to non-trading financial assets and non-trading financial liabilities and, where applicable, these amounts are recognized in net interest income over the expected life of the instrument using the effective interest method.

CONSOLIDATED FINANCIAL STATEMENTS

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 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 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.

Commencing November 1, 2006, 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 market value and are included in cash resources in the Consolidated Balance Sheet. The liability arising from outstanding certificates is also carried at market 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. On transition, 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 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. The change in accounting policy related to other-than temporary impairment as noted below was not material. 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 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.

Previous accounting policy

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. 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.

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 is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such, unless the loan is fully secured, the collection of the debt is in process, and the collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status within 180 days from the date a payment has become contractually in arrears. Finally, a loan that is contractually 180 days in arrears is classified as impaired in all situations, except when it is guaranteed or insured by the Canadian government, the provinces or a Canadian government agency; such loans are classified as impaired if the loan is contractually in arrears for 365 days. Any credit card loan that has a payment that is contractually 180 days in arrears is written off.

When a loan is classified as impaired, recognition of interest 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 personal loan, credit card and 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 (prior to 2007, in investment securities). 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 on securities, other than trading in the Consolidated Statement of Income. Other retained interests are classified and accounted for as loans.

For securitizations of loans, gains and losses on sale and servicing fee revenues are reported in other income — other in the Consolidated Statement of Income. Where a servicing liability or asset is recognized, the amount is recorded in other liabilities or other assets in the Consolidated Balance Sheet.

For the sale of performing loans (other than by way of securitization), which is one of the Bank's credit risk management strategies, gains and losses are reported in other income — other. Gains and losses on sales of impaired loans are reported in the provision for credit losses in the Consolidated Statement of Income.

Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Consolidated Balance Sheet. The Bank has equivalent claims against its customers in the event of a call on these commitments, which are reported as an asset. Fees earned are reported in other income — credit fees in the Consolidated Statement of Income.

Land, buildings and equipment

Land is carried at cost. Buildings, equipment and computer software, and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings — 40 years, equipment and computer software — 3 to 10 years, and leasehold improvements — term of lease.

The Bank performs impairment testing on its long-lived assets when events or changes in circumstance indicate that an asset's carrying value may not be recoverable. The asset is written down to fair value when the carrying value of the asset exceeds the projected future undiscounted cash flows.

Net gains and losses on disposal are included in other income —other, in the Consolidated Statement of Income, in the year of disposal.

Goodwill and other intangible assets

Goodwill is the excess of the purchase price paid over the fair value of the net assets purchased in the acquisition of a subsidiary or a VIE that is a business where the Bank is the primary beneficiary.

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.

Commencing November 1, 2006, all derivatives, including embedded derivatives that must be separately accounted for, are now recorded at fair value in the Consolidated Balance Sheet [refer to Note 25(d)]. 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 for all periods presented.

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, in a fair value hedge, 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, in a cash flow hedge, 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, in a net investment hedge, 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 on securities, other than trading; and other derivative contracts in other income — other. Where the Bank manages its credit exposure using written credit defaults swaps, these derivatives are carried at fair value with changes in the fair value included in other income — other, in the Consolidated Statement of Income. 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.

Previous accounting policy

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 has not changed 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 11 to 22 years. For principal other benefit plans, these periods range from 11 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 11 to 22 years and from 11 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.

Effective in fiscal 2006, certain employees outside of Canada participate in a defined contribution pension plan. 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 16.

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 timeframe 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.

Previous accounting policy

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 Bank has not restated net income of any prior period as a result of adopting this accounting change as the Bank has concluded that such an impact is not material to any particular period. 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

Commencing November 1, 2006, 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. The Bank has recorded an increase in other assets of $78 million as at November 1, 2006 and a corresponding increase in other liabilities relating to these guarantees. Prior to fiscal 2007, these guarantees were recorded on an accrual basis.

2. Future accounting changes

The following summarizes future accounting changes that will be relevant to the Bank's consolidated financial statements subsequent to October 31, 2007.

Capital disclosures

The CICA has issued a new accounting standard that establishes requirements for Capital Disclosures. This will be 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 — Disclosure

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 will be effective for the Bank commencing November 1, 2007. The new disclosures will 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.

3. Securities

(a) An analysis of the carrying value of securities is as follows:

As at October 31 ($ millions)	Remaining term to maturity: Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	**2007 Carrying value**	2006 Carrying value
Trading securities[1]:							
Canadian federal government debt	$ 220	$ 2,031	$ 3,227	$ 2,139	$ —	**$ 7,617**	$14,494
Canadian provincial and municipal debt	205	717	1,026	4,249	—	**6,197**	4,262
U.S. treasury and other U.S. agencies' debt	—	—	19	315	—	**334**	2,180
Other foreign governments' debt	587	530	3,459	401	—	**4,977**	3,628
Common shares	—	—	—	—	31,616	**31,616**	29,053
Other	2,269	928	3,773	1,802	172	**8,944**	8,873
Total	3,281	4,206	11,504	8,906	31,788	**59,685**	62,490
Available-for-sale securities[1]:							
Canadian federal government debt[2]	280	220	2,787	1,748	—	**5,035**	3,526
Canadian provincial and municipal debt	296	14	—	6	—	**316**	734
U.S. treasury and other U.S. agencies' debt	73	79	1,691	329	—	**2,172**	3,089
Other foreign governments' debt	1,090	356	1,603	2,484	—	**5,533**	4,474
Bonds of designated emerging markets	4	—	60	570	—	**634**	530
Other debt	594	1,147	5,904	3,827	—	**11,472**	17,916
Preferred shares	—	—	—	—	549[3]	**549**	611
Common shares	—	—	—	—	2,715	**2,715**	1,990
Total	2,337	1,816	12,045	8,964	3,264	**28,426**	32,870
Equity accounted investments[1]:	—	—	—	—	724[4]	**724**	142
Total securities	$ 5,618	$ 6,022	$23,549	$17,870	$35,776	**$88,835**	$95,502
Total by currency (in Canadian equivalent):							
Canadian dollar	$ 2,554	$ 3,818	$ 9,554	$ 9,199	$31,280	**$56,405**	$55,796
U.S. dollar	622	831	9,161	6,698	3,751	**21,063**	30,390
Mexican peso	1,374	560	3,049	300	164	**5,447**	4,567
Other currencies	1,068	813	1,785	1,673	581	**5,920**	4,749
Total securities	$ 5,618	$ 6,022	$23,549	$17,870	$35,776	**$88,835**	$95,502

(1) Effective fiscal 2007, available-for-sale securities are carried at fair value. Prior to 2007, available-for-sale securities were classified as investment securities and were carried at cost or amortized cost. Trading Securities are carried at fair value for all periods presented. [Refer to Note 1].

(2) Includes securities retained by the Bank in connection with its mortgage securitizations. The outstanding balance of these mortgage-backed securities is $4,375 (2006 —$2,116) [refer to Note 4 (b)].

(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)	**2007[1]** Cost[3]	Gross unrealized gains	Gross unrealized losses	Fair value	2006[2] Cost[3]	Gross unrealized gains	Gross unrealized losses	Fair value
Canadian federal government debt	**$ 5,062**	**$ 10**	**$ 37**	**$ 5,035**	$ 3,526	$ 4	$ 66	$ 3,464
Canadian provincial and municipal debt	**316**	**—**	**—**	**316**	734	—	—	734
U.S. treasury and other U.S. agencies' debt	**2,166**	**8**	**2**	**2,172**	3,089	5	36	3,058
Other foreign governments' debt	**5,281**	**322**	**70**	**5,533**	4,474	376	34	4,816
Bonds of designated emerging markets	**357**	**277**	**—**	**634**	530	316	—	846
Other debt	**11,464**	**67**	**59**	**11,472**	17,916	39	34	17,921
Preferred shares	**535**	**24**	**10**	**549**	611	18	7	622
Common shares	**2,273**	**475**	**33**	**2,715**	1,990	528	18	2,500
Total available-for-sale securities	**$27,454**	**$ 1,183**	**$ 211**	**$28,426**	$32,870	$ 1,286	$ 195	$33,961

(1) Commencing November 1, 2006, these securities relate to available-for-sale securities. Refer to Note 1 for further details.

(2) Prior to November 1, 2006, these securities relate to investment securities. Refer to Note 1 for further details.

(3) Cost for debt securities is amortized cost.

The net unrealized gain on available-for-sale securities of $972 million (2006 — $1,091 million) increases to a net unrealized gain of $977 million (2006 — decreases to $1,001 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 on available-for-sale securities is recorded in accumulated other comprehensive income.

(c) An analysis of net gain on securities, other than trading[1] is as follows:

For the year ended October 31 ($ millions)	**2007**	2006	2005
Realized gains	**$ 708**	$ 476	$ 599
Realized losses and impairment writedowns	**220**	105	185
Net gain on securities, other than trading	**$ 488**	$ 371	$ 414

(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 $293 million for the year ended October 31, 2007.

(d) The following table presents securities with continuous unrealized losses for periods less than and greater than 12 months:

	Available-for-sale securities with continuous unrealized losses as at October 31, 2007								
	Less Than 12 Months			**12 Months or Greater**			Total		
($ millions)	Cost	Fair Value	Unrealized Losses	**Cost**	**Fair Value**	**Unrealized Losses**	Cost	Fair Value	Unrealized Losses
Canadian federal government debt	$2,388	$2,369	$ 19	$1,440	$1,422	$ 18	$ 3,828	$ 3,791	$ 37
Canadian provincial and municipal debt	248	248	—	14	14	—	262	262	—
U.S. treasury and other U.S. agencies' debt	70	70	—	653	651	2	723	721	2
Other foreign governments' debt	1,756	1,728	28	738	696	42	2,494	2,424	70
Bonds of designated emerging markets	—	—	—	2	2	—	2	2	—
Other debt	1,738	1,702	36	772	749	23	2,510	2,451	59
Preferred shares	291	281	10	8	8	—	299	289	10
Common shares	295	267	28	16	11	5	311	278	33
Total	$6,786	$6,665	$ 121	$3,643	$3,553	$ 90	$10,429	$10,218	$ 211

As at October 31, 2007, the cost of 582 available-for-sale securities exceeded their fair value by $211 million. This unrealized loss is recorded in Accumulated Other Comprehensive Income as part of unrealized gains on available-for-sale securities. Of the 582 securities, 139 have been in an unrealized loss position continuously for more than a year, amounting to an unrealized loss of $90 million. The unrealized losses on the debt instruments arose primarily from an increase in interest rates. For equity investments, unrealized losses are primarily the result of the 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 writedown is recorded when the decline is considered other-than-temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

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[1]:

As at October 31 ($ millions)	**2007**	2006
Canada:		
Residential mortgages	**$ 94,085**	$ 81,908
Personal and credit cards	**35,436**	32,653

Business and government	**29,100**	26,044
	158,621	140,605
United States:		
Business, government and other	**17,407**	14,756
Mexico:		
Residential mortgages	**2,579**	2,212
Personal and credit cards	**1,836**	1,912
Business and government	**4,566**	5,955
	8,981	10,079
Other International:		
Residential mortgages	**5,490**	5,470
Personal and credit cards	**4,462**	4,493
Business and government	**34,427**	29,978
	44,379	39,941
	229,388	205,381
Less: allowance for credit losses	**2,241**	2,607
Total[2]	**$227,147**	$202,774

(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 $42,032 (2006 — $41,910), loans denominated in Mexican pesos amount to $7,007 (2006 — $7,727) and loans denominated in other foreign currencies amount to $22,591 (2006 — $15,996).

(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, net of 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% (2006 — 16.0%; 2005 — 15.2%), an excess spread of 0.8% (2006 —0.9%; 2005 — 1.2%), and a discount rate of 4.5% (2006 — 4.3%; 2005 — 3.8%). 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)	**2007**	2006	2005
Net cash proceeds[1]	**$ 3,756**	$ 2,514	$ 2,153
Retained interest	**98**	67	66
Retained servicing liability	**(27)**	(18)	(14)
	3,827	2,563	2,205
Residential mortgages securitized	**3,827**	2,551	2,161
Gain on sale	**$ —**	$ 12	$ 44

(1) Excludes insured mortgages which were securitized and retained by the Bank during the year of $2,983 (2006 — $1,206; 2005 — $1,452). These assets are classified as available-for-sale securities (investment securities in 2006 and prior years) and have an outstanding balance of $4,375 (2006 — $2,116; 2005 — $1,214) [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)	**2007**	2006
Fair value of the retained interest ($)	229	240
Weighted average life (in years)	4	3
Prepayment rate (%)	16.3	14.4
Impact on fair value of a 10% adverse change ($)	(5)	(11)
Impact on fair value of a 20% adverse change ($)	(9)	(18)
Residual cash flow annual discount rate (%)	4.5-5.7	3.9-4.3
Impact on fair value of a 10% adverse change ($)	(2)	(7)
Impact on fair value of a 20% adverse change ($)	(4)	(9)
Excess spread (%)	0.9	1.0
Impact on fair value of a 10% adverse change ($)	(22)	(26)
Impact on fair value of a 20% adverse change ($)	(43)	(50)

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[1] is summarized as follows:

	2007[2][3]			2006[2]			2005		
($ millions)	**Outstanding securitized loans as at October 31**	**Impaired and other past due loans as at October 31**	**Net credit losses for the year ended October 31**	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31
Residential mortgages	**$ 11,631**	**$ 15**	**$ —**	$ 11,913	$ 7	$ —	$ 7,801	$ —	$ —
Personal loans	**414**	**14**	**57**	170	1	1	809	4	2
Total	**$ 12,045**	**$ 29**	**$ 57**	$ 12,083	$ 8	$ 1	$ 8,610	$ 4	$ 2

(1) Excludes insured mortgages which were securitized and retained by the Bank [refer to Note 3].

(2) The 2006 and 2007 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 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

As at October 31 ($ millions)	Gross[1]	Specific allowance[2]	2007 Net	2006 Net
By loan type:				
Residential mortgages	$ 332	$ 129	**$ 203**	$ 178
Personal and credit cards	485	434	**51**	13
Business and government	727	380	**347**	379
Total	$1,544[3][4]	$ 943	**$ 601**	$ 570
By geography:				
Canada			**$ 231**	$ 247
United States			**4**	45
Other International			**366**	278
Total			**$ 601**	$ 570

(1) Gross impaired loans denominated in U.S. dollars amounted to $433 (2006 — $607) and those denominated in other foreign currencies amounted to $505 (2006 — $608).

(2) The specific allowance for impaired loans evaluated on an individual basis totalled $383 (2006 — $710).

(3) Individual impaired loans without an allowance for credit losses totalled $179 (2006 — $139).

(4) Average balance of gross impaired loans totalled $1,757 (2006 — $1,850).

(b) Allowance for credit losses

As at October 31 ($ millions)	2007	2006	2005
Balance at beginning of year	**$ 2,618**	$ 2,475	$ 2,704
Write-offs[1]	**(698)**	(543)	(650)
Recoveries	**186**	181	205
Provision for (reversal of) credit losses	**270**	216	230
Other, including foreign currency adjustment[2]	**(124)**	289	(14)
Balance at end of year[3][4]	**$ 2,252**	$ 2,618	$ 2,475

(1) Write-offs of loans restructured during the year were nil (2006 — nil; 2005 — $18).

(2) Includes $38 in specific allowances and $16 in general allowances related to acquisitions in 2007, $323 in specific allowances and $37 in general allowances from acquisitions in 2006, and $59 in specific allowances from acquisitions in 2005.

(3) As at October 31, 2007, $11 (2006 — $11; 2005 — $6) has been recorded in other liabilities.

(4) Comprised of $954 (2006 — $1,311; 2005 — $1,145) in specific allowances and $1,298 (2006 — $1,307; 2005 — $1,330) in general allowances.

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 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[a]:

As at October 31 ($ millions)	2007 Total assets	2006 Total assets
Multi-seller conduits that the Bank administers[b]	**$ —**	$ 7,546

Funding vehicles[c]	**4,829**	4,761
Other [d]	**1,285**	973

Other VIEs in which the Bank has a significant variable interest:

	2007		2006	
As at October 31 ($ millions)	**Total assets**	**Maximum exposure to loss[e]**	Total assets	Maximum exposure to loss[e]
Multi-seller conduits that the Bank administers [b]	**$14,525**	**$14,525**	$ 6,338	$ 6,338
Structured finance entities [f]	**3,223**	**1,949**	3,591	2,048
Collateralized debt obligation entities [g]	**854**	**292**	1,313	371
Other	**839**	**156**	1,003	180

(a) The assets supporting the obligations of these consolidated VIEs as at October 31, 2007 are as follows: cash and non-interest-bearing deposits with banks of $727 million (2006 — $240 million); Canadian residential mortgage loans of $4,757 million (2006 —$4,710 million); trading securities of $542 million (2006 —$8,240 million); and other assets of $88 million (2006 — $90 million). In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to the Bank except where the Bank has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

(b) The Bank administers multi-seller commercial paper conduit programs, which involve the purchase of assets by conduit vehicles from outside parties funded by the issuance of asset-backed commercial paper. The sellers continue to service the assets and absorb first losses for their portion of the programs. 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. 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 22(a)]. The Bank provides additional liquidity facilities to these multi-seller conduits to a maximum amount of $5.6 billion (2006 — $5.6 billion) based on future asset purchases by these conduits.

On April 30, 2007, one of the multi-seller conduits administered by the Bank 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.

(c) The Bank uses special purpose entities to facilitate cost-efficient financing of its own operations. Activities of these entities are generally limited to holding a pool of assets or receivables generated by the Bank used to finance distributions to their investors.

(d) This includes a Bank-sponsored commercial paper conduit that was consolidated at the end of October 2007 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.

(e) 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. The maximum exposure to loss related to the multi-seller conduits excludes additional committed liquidity facilities of $5.6 billion (2006 — $5.6 billion). The Bank has recorded $2,497 million (2006 — $2,521 million) of this exposure, primarily its ownership interest in the VIEs, on its Consolidated Balance Sheet as at October 31, 2007.

(f) This includes special purpose entities used to assist corporate clients in accessing cost-efficient financing through their securitization structures.

(g) 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.

7. Land, buildings and equipment

As at October 31 ($ millions)	Cost	Accumulated depreciation & amortization	**2007 Net book value**	2006 Net book value
Land	$ 334	$ —	**$ 334**	$ 349
Buildings	1,614	595	**1,019**	1,110
Equipment and computer software	2,889	2,251	**638**	566
Leasehold improvements	848	568	**280**	231
Total	$ 5,685	$ 3,414	**$ 2,271**	$ 2,256

Depreciation and amortization in respect of the above buildings, equipment and computer software, and leasehold improvements for the year amounted to $221 million (2006 — $192 million; 2005 — $173 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	**2007**	2006	2005
Balance at beginning of year	$ 260	$ 512	$ 101	**$ 873**	$ 498	$ 261
Acquisitions	91	252	7	**350**	390	227
Effects of foreign exchange and other	—	(72)	(17)	**(89)**	(15)	10
Balance at end of year	$ 351	$ 692	$ 91	**$ 1,134**	$ 873	$ 498

Intangible assets

As at October 31 ($ millions)	Gross carrying amount	Accumulated amortization	**2007 Net**	2006 Net	2005 Net
Intangible assets	$ 539	$ 266	**$ 273**	$ 294	$ 235

Intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense for the year ended October 31, 2007, was $46 million (2006 — $38 million; 2005 — $29 million).

9. Other assets

As at October 31 ($ millions)	**2007**	2006
Accrued interest	**$ 1,800**	$ 1,641
Accounts receivable	**858**	1,098
Future income tax assets (Note 17)	**1,340**	1,626
Other	**2,617**	2,208
Total	**$ 6,615**	$ 6,573

10. Deposits

As at October 31 ($ millions)	Payable on demand: Interest-bearing	Payable on demand: Non-interest-bearing	Payable after notice	Payable on a fixed date	2007	2006
Personal	$ 1,882	$ 2,426	$ 32,435	$ 64,080	**$100,823**	$ 93,450
Business and government [1]	16,315	9,860	12,742	122,312	**161,229**	141,072
Banks	225	378	691	25,112	**26,406**	29,392
Total	$ 18,422	$ 12,664	$ 45,868	$211,504	**$288,458**	$263,914
Recorded in:						
Canada					**198,158**	175,199
United States					**27,513**	22,159
Mexico					**8,288**	9,932
Other International					**54,499**	56,624
Total[2]					**$288,458**	$263,914

(1) Includes deposit notes issued by the Bank to Scotiabank Capital Trust of $2,250 (2006 — $2,250) and Scotiabank Subordinated Notes Trust of $1,000 (2006 — nil) [refer to Note 13].

(2) Deposits denominated in U.S. dollars amount to $74,887 (2006 — $74,660), deposits denominated in Mexican pesos amount to $7,736 (2006 — $9,259) and deposits denominated in other foreign currencies amount to $37,272 (2006 — $30,707).

11. Other liabilities

As at October 31 ($ millions)	2007	2006
Accrued interest	**$ 2,386**	$ 2,148
Accounts payable and accrued expenses	**4,283**	4,108
Deferred income	**416**	353
Other liabilities of subsidiaries and VIEs[1]	**2,201**	9,498
Gold and silver certificates	**5,986**	3,434
Future income tax liabilities (Note 17)	**226**	148
Other	**5,640**	5,110
Total	**$21,138**	$24,799

(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. The outstanding debentures as at October 31 were:

As at October 31 ($ millions) Maturity date	Interest rate (%)	Terms [1] (currency in millions)	2007	2006
September 2008	6.25	US $250	**$ 243**	$ 281
July 2012	6.25	Redeemed on July 16, 2007	**—**	500
July 2013	5.65	Redeemable at any time. After July 22, 2008, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1%	**428**	425
September 2013	8.30	Redeemable at any time	**252**	250
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%	**335**	325
June 2025	8.90	Redeemable at any time	**250**	250
August 2085	Floating	US $214 bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%. Redeemable on any interest payment date	**202**	240
			$1,710	$2,271

The aggregate maturities of the debentures are as follows ($ millions):

Less than 3 years	$ 243
From 3 to 5 years	—
From 5 to 10 years	1,015
Over 10 years	452
	$ 1,710

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

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)	**2007**	2006
Capital instrument liabilities		
Preferred shares issued by Scotia Mortgage Investment Corporation[a]	**$ —**	$ 250
Scotiabank Trust Securities — Series 2000-1 issued by BNS Capital Trust[b][f][g]	**500**	500
	$ 500	$ 750
Scotiabank Trust Securities not consolidated by the Bank		
Scotiabank Trust Securities — Series 2002-1 issued by Scotiabank Capital Trust[c][f][g]	**$ 750**	$ 750
Scotiabank Trust Securities — Series 2003-1 issued by Scotiabank Capital Trust[d][f][g]	**750**	750
Scotiabank Trust Securities — Series 2006-1 issued by Scotiabank Capital Trust[e][f][g]	**750**	750
Scotiabank Trust Subordinated Notes not consolidated by the Bank		
Scotiabank Trust Subordinated Notes — Series A issued by Scotiabank Subordinated Notes Trust[h]	**$ 1,000**	$ —

(a) Scotia Mortgage Investment Corporation, a wholly-owned subsidiary of the Bank, issued Class A Preferred Shares (Scotia BOOMS) which were entitled to non-cumulative preferential cash dividends, if and when declared, payable semi-annually in an amount per share of $32.85. On October 31, 2007, Scotia Mortgage Investment Corporation redeemed all of the 250,000 Class A Preferred Shares. The redemption price per share was equal to $1,000 plus declared and unpaid dividends thereon to the October 31, 2007 redemption date.

(b) 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 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 (f) 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.

(c) 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 prior to June 30, 2007, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2007, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series W of the Bank. The Series W shares will be entitled to cash dividends payable semi-annually in an amount of $0.53125 per $25.00 share. Under the circumstances outlined in (f) below the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series X of the Bank. The Series X shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.70 per $25.00 share [refer to 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.

(d) 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 (f) below, the Scotia BaTS would be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares Series V of the Bank. The Series V shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.61250 per $25.00 share [refer to 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.

(e) On September 28, 2006, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities — Series 2006-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $28.25 per security. The first such payment was made on December 31, 2006, in an amount of $14.551. 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 (f) below, the Scotia BaTS would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series T of the Bank. The Series T shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.625 per $25.00 share. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series T of the Bank, then the Bank would become the sole beneficiary of the Trust.

(f) 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.

(g) 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].

(h) 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 will be 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)	2007 Number of shares	2007 Amount	2006 Number of shares	2006 Amount	2005 Number of shares	2005 Amount
Preferred shares:						
Series 12[a]	**12,000,000**	**$ 300**	12,000,000	$ 300	12,000,000	$ 300
Series 13[b]	**12,000,000**	**300**	12,000,000	300	12,000,000	300
Series 14[c]	**13,800,000**	**345**	—	—	—	—
Series 15[d]	**13,800,000**	**345**	—	—	—	—
Series 16[e]	**13,800,000**	**345**	—	—	—	—
Total preferred shares	**65,400,000**	**$1,635**	24,000,000	$ 600	24,000,000	$ 600
Common shares:						
Outstanding at beginning of year	**989,512,188**	**$3,425**	990,182,126	$3,316	1,008,505,580	$3,228
Issued under Shareholder Dividend and Share Purchase Plan[f]	**115,228**	**6**	142,269	7	154,168	6
Issued under Stock Option Plans (Note 16)	**5,485,060**	**142**	6,801,687	127	6,423,684	117
Issued for acquisition of a subsidiary	**691,679**	**36**	33,906	1	1,195,294	49
Purchased for cancellation[g]	**(12,037,000)**	**(43)**	(7,647,800)	(26)	(26,096,600)	(84)
Outstanding at end of year	**983,767,155**	**$3,566**	989,512,188	$3,425	990,182,126	$3,316
Total capital stock		**$5,201**		$4,025		$3,916

(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, issued on March 15, 2005, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.30. The initial dividend, paid July 27, 2005, was $0.4405 per share. 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 will be paid on January 29, 2008, at $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) As at October 31, 2007, 21,876,992 common shares have been reserved for future issue under the terms of the Shareholder Dividend and Share Purchase Plan.

(g) In January 2007, 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, 2008, or the date the Bank completes its purchases. During the year ended October 31, 2007, 12 million shares (2006 — 7.6 million; 2005 — 26.1 million shares) were purchased at an average price of $52.21 (2006 — $45.71; 2005 — $40.51).

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. Further, dividends cannot be declared if the total of all dividends declared in that year would exceed the aggregate of the Bank's net income to that date and its net income for the preceding two financial years, unless the Superintendent's approval is obtained.

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. Accumulated other comprehensive income (loss)

The components of accumulated other comprehensive income (loss) as at October 31, 2007 and 2006, 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	Transition amount (Note1)	Net change	**Ending balance**	Opening balance	Net change	Ending balance
($ millions)	October 31 2006	November 1 2006		**October 31 2007**	October 31 2005		October 31 2006
Unrealized foreign currency translation losses, net of hedging activities	$ (2,321)	$ —	$(2,228)	**$ (4,549)(1)**	$ (1,961)	$ (360)	$ (2,321)(1)
Unrealized gains on available-for-sale securities, net of hedging activities	—	706	(67)	**639(2)**	—	—	—
Gains (losses) on derivative instruments designated as cash flow hedges	—	(23)	76	**53(3)**	—	—	—
Accumulated other comprehensive income (loss)	$ (2,321)	$ 683	$(2,219)	**$ (3,857)**	$ (1,961)	$ (360)	$ (2,321)

(1) Net of income tax expense of $427 (2006 — nil). As at October 31, 2007, non-derivative instruments designated as net investment hedges amounted to $6,458 (2006 — $6,838).

(2) Net of income tax expense of $338.

(3) Net of income tax 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 gain of approximately $34 million after tax. As at October 31, 2007, the maximum length of cash flow hedges outstanding was less than 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)	**2007**	2006	2005
Net change in unrealized foreign currency translation losses			
Net unrealized foreign currency translation losses(1)	**$(2,916)**	$ (564)	$ (416)
Net gains on hedges of net investments in self-sustaining foreign operations(2)	**688**	204	238
	(2,228)	(360)	(178)
Net change in unrealized gains on available-for-sale securities			
Net unrealized gains on available-for-sale securities(3)	**46**	—	—
Reclassification of net gains to net income(4)	**(113)**	—	—
	(67)	—	—
Net change in gains (losses) on derivative instruments designated as cash flow hedges			
Net losses on derivative instruments designated as cash flow hedges(5)	**(770)**	—	—
Reclassification of net losses to net income(6)	**846**	—	—
	76	—	—
Other comprehensive income (loss)	**$(2,219)**	$ (360)	$ (178)

(1) Net of income tax expense of nil.

(2) Net of income tax expense of $427 (2006 — nil; 2005 — nil).
(3) Net of income tax expense of $20.
(4) Net of income tax benefit of $64.
(5) Net of income tax benefit of $387.
(6) Net of income tax expense of $425.

16. 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 2, 2008 to June 1, 2017. As approved by the shareholders, a total of 114 million common shares have been reserved for issuance under this plan of which 66.3 million common shares have been issued as a result of the exercise of options and 27.7 million common shares are committed under outstanding options, leaving 20 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, 164,000 (2006 — 174,000; 2005 — 224,000) options are outstanding at a weighted average exercise price of $23.09 (2006 — $23.17; 2005 — $23.19). In fiscal 2007, 10,000 of these options (2006 — 50,000; 2005 — 33,150) were exercised at a weighted average exercise price of $24.51 (2006 — $23.25; 2005 —$22.71). 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:

	2007		2006		2005	
As at October 31	**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
Outstanding at beginning of year	**31,839**	**$ 23.87**	37,358	$ 21.35	42,525	$ 19.93
Granted	**2,094**	**52.01**	2,052	46.04	1,977	39.00
Exercised	**(5,475)**	**19.29**	(6,751)	16.32	(6,391)	17.00
Forfeited/cancelled	**(207)**	**28.54**	(342)	27.33	(149)	23.57
Exercise of Tandem SARs	**(530)**	**26.80**	(478)	25.90	(604)	25.04
Outstanding at end of year[1]	**27,721**	**$ 26.81**	31,839	$ 23.87	37,358	$ 21.35
Exercisable at end of year	**22,629**	**$ 22.62**	26,170	$ 20.98	29,305	$ 19.06
Available for grant	**20,008**		21,365		22,598	

As at October 31, 2007	Options Outstanding			Options Exercisable	
Range of exercise prices	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
$14.18 to $15.83	5,524	1.87	$ 14.96	5,524	$ 14.96
$17.55 to $21.03	6,173	2.84	$ 20.57	6,173	$ 20.57
$24.40 to $27.44	7,996	4.44	$ 24.59	7,996	$ 24.59
$31.45 to $54.00	8,028	7.25	$ 41.97	2,936	$ 35.99
	27,721	4.39	$ 26.81	22,629	$ 22.62

(1) Included are 16,024,561 (2006 — 15,892,372; 2005 — 15,274,605) options with Tandem SAR features.

(b) Employee share ownership plans

Qualifying employees can 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 2007, the Bank's contributions totalled $27 million (2006 — $26 million; 2005 — $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 2007, an aggregate expense of $133 million (2006 — $164 million; 2005 — $140 million) 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 gains arising from securities and derivatives used to manage the volatility of stock-based compensation of $99 million (2006 — $165 million; 2005 —$94 million). Details of these plans are as follows:

Stock Appreciation Rights (SARs), including Tandem SARs

The SARs include Tandem SARs, as described above, as well as stand-alone SARs which are granted instead of stock options to selected employees in countries where local laws may restrict the Bank from issuing shares. SARs have vesting and exercise terms and conditions similar to the employee stock options. The cost of SARs is recognized on a graded vesting basis except where the employee is eligible to retire prior to the vesting date, in which case the cost is recognized between the grant date and the date the employee is eligible to retire. When a SAR is exercised, the Bank pays the appreciation amount in cash equal to the rise in the market price of the Bank's common shares since the grant date. During fiscal 2007, 2,336,394 SARs were granted (2006 — 2,284,396; 2005 —2,212,980) and as at October 31, 2007, 21,810,096 SARs were outstanding (2006 — 22,771,720; 2005 — 23,148,386), of which 20,558,130 SARs were vested (2006 — 21,624,273; 2005 —13,611,252).

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, 2007, there were 1,571,110 units outstanding (2006 — 1,465,391; 2005 — 1,581,240).

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, 2007, there were 216,335 units outstanding (2006 — 181,823; 2005 — 145,593).

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, 2007, there were 1,770,405 units (2006 — 3,597,093; 2005 —5,179,850) awarded and outstanding of which 1,374,451 were vested.

Performance Share Unit Plan (PSU)

In 2004, the Bank introduced the PSU Plan for eligible executives. PSU awards vest at the end of three years and 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, 2007, there were 3,477,266 units (2006 — 2,422,239; 2005 — 1,279,483) awarded and outstanding [including 1,155,145 (2006 — 800,604; 2005 — 423,177) subject to performance criteria] of which 2,704,164 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.

17. 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)	**2007**	2006	2005
Provision for income taxes in the Consolidated Statement of Income:			
Current income taxes:			
Domestic:			
Federal	**$ 283**	$ 269	$ 377
Provincial	**236**	178	213
Foreign	**650**	603	488
	1,169	1,050	1,078
Future income taxes:			
Domestic:			
Federal	**(134)**	(135)	(196)
Provincial	**(55)**	(11)	(44)
Foreign	**83**	(32)	9
	(106)	(178)	(231)
Total provision for income taxes in the Consolidated Statement of Income	**$ 1,063**	$ 872	$ 847
Provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity:			
Reported in Other Comprehensive Income	**421**	—	—
Cumulative effect of adopting new accounting policy	**338**	(13)	—
Share issuance costs	**(9)**	—	(3)
Total provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity	**750**	(13)	(3)
Total provision for income taxes	**$ 1,813**	$ 859	$ 844

(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:

	2007		2006		2005	
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	**$ 1,815**	**34.7%**	$ 1,586	34.9%	$ 1,443	35.0%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries and foreign branches	**(467)**	**(8.9)**	(467)	(10.3)	(370)	(9.0)
Tax-exempt income from securities	**(313)**	**(6.0)**	(219)	(4.8)	(210)	(5.1)
Future income tax effect of substantively enacted tax rate changes	**41**	**0.8**	4	0.1	15	0.4
Other, net	**(13)**	**(0.3)**	(32)	(0.7)	(31)	(0.8)
Total income taxes and effective tax						

rate	**$ 1,063**	**20.3%**	$ 872	19.2%	$ 847	20.5%

(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)	**2007**	2006
Allowance for credit losses[1]	**$ 785**	$ 746
Deferred compensation	**377**	391
Loss carryforwards[2]	**101**	174
Loss on disposal of subsidiary operations	**83**	87
Deferred income	**86**	59
Securities	**(247)**	2
Premises and equipment	**(96)**	(63)
Pension fund	**(292)**	(254)
Other	**317**	336
Net future income taxes[3]	**$ 1,114**	$ 1,478

(1) As at October 31, 2007, the future income tax asset related to the allowance for credit losses has been reduced by a valuation allowance of $213 (2006 — nil) relating to a subsidiary's unused tax deductions arising from previous years' allowance for credit losses.

(2) Includes a gross future tax asset of $203 as at October 31, 2007 (2006 — $357) relating to subsidiaries' unused income tax losses. This future tax asset has been reduced by a valuation allowance of $102 (2006 — $183), resulting in a net future tax asset of $101 (2006 — $174). Should the portion of the valuation allowance related to recent acquisitions be reduced in future periods, the reduction would be applied to goodwill.

(3) Net future income taxes of $1,114 (2006 — $1,478) are represented by future income tax assets of $1,340 (2006 — $1,626), net of future income tax liabilities of $226 (2006 — $148).

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, 2007, are estimated to be $444 million (October 31, 2006 — $401 million).

18. Employee future benefits

The Bank sponsors a number of employee future benefit plans, including pensions and other post-retirement benefits, post-employment benefits and compensated absences for most of its employees globally. The following tables present financial information related to the Bank's principal plans. The principal plans include pension and other benefit plans in Canada, the U.S., Mexico, Jamaica and the U.K.[1]

	Pension plans			Other benefit plans		
For the year ended October 31 ($ millions)	**2007**	2006	2005	**2007**	2006	2005
Change in benefit obligation						
Benefit obligation at beginning of year	**$ 4,588**	$ 4,568	$ 3,790	**$ 1,075**	$ 1,041	$ 808
Cost of benefits earned in the year	**128**	143	116	**36**	42	36
Interest cost on benefit obligation	**264**	253	250	**62**	60	55
Employee contributions	**11**	9	9	**—**	—	—
Benefits paid	**(235)**	(198)	(175)	**(49)**	(48)	(48)
Actuarial loss (gain)	**5**	(75)	560	**(1)**	(2)	200
Non-routine events[2]	**(50)**	(90)	36	**(29)**	(4)	(10)
Foreign exchange	**(93)**	(22)	(18)	**(47)**	(14)	—
Benefit obligation at end of year	**$ 4,618**	$ 4,588	$ 4,568	**$ 1,047**	$ 1,075	$ 1,041
Change in fair value of assets						
Fair value of assets at beginning of year	**$ 5,390**	$ 4,765	$ 4,097	**$ 221**	$ 207	$ 162
Actual return on assets	**601**	440	702	**30**	27	17
Employer contributions	**186**	488	157	**62**	42	73
Employee contributions	**11**	9	9	**—**	—	—
Benefits paid	**(235)**	(198)	(175)	**(49)**	(48)	(48)
Non-routine events[2]	**(73)**	(75)	—	**(5)**	—	—
Foreign exchange	**(147)**	(39)	(25)	**(22)**	(7)	3
Fair value of assets at end of year[3]	**$ 5,733**	$ 5,390	$ 4,765	**$ 237**	$ 221	$ 207
Funded status						
Excess (deficit) of fair value of assets over benefit obligation at end of year	**$ 1,115**	$ 802	$ 197	**$ (810)**	$ (854)	$ (834)
Unrecognized net actuarial loss	**274**	537	780	**271**	325	366
Unrecognized past service costs	**96**	86	81	**(4)**	(5)	(6)
Unrecognized transitional obligation (asset)	**(308)**	(364)	(411)	**178**	206	229
Valuation allowance	**(169)**	(195)	(182)	**—**	—	—
Employer contributions after measurement date	**36**	6	90	**10**	10	7
Net prepaid (accrued) benefit expense at end of year	**$ 1,044**	$ 872	$ 555	**$ (355)**	$ (318)	$ (238)
Recorded in:						
Other assets in the Bank's Consolidated Balance Sheet	**$ 1,243**	$ 1,054	$ 729	**$ 13**	$ 6	$ 10
Other liabilities in the Bank's Consolidated Balance Sheet	**(199)**	(182)	(174)	**(368)**	(324)	(248)
Net prepaid (accrued) benefit expense at end of year	**$ 1,044**	$ 872	$ 555	**$ (355)**	$ (318)	$ (238)
Annual benefit expense						
Cost of benefits earned in the year	**$ 128**	$ 143	$ 116	**$ 36**	$ 42	$ 36
Interest cost on benefit obligation	**264**	253	250	**62**	60	55
Actual return on assets	**(601)**	(440)	(702)	**(30)**	(27)	(17)
Actuarial loss (gain) on benefit obligation	**5**	(75)	560	**(1)**	(2)	200

Amount of curtailment (gain) loss recognized	**3**	(2)	—	**(8)**	—	—
Amount of settlement (gain) loss recognized	**32**	1	—	**(1)**	—	—
Non-routine events[2]	**24**	(15)	36	**(11)**	(4)	(10)
Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs	**(145)**	(135)	260	**47**	69	264
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	**227**	97	412	**15**	12	6
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation	**13**	125	(528)	**15**	19	(193)
Difference between amortization of non-routine events and actual non-routine events	**(15)**	23	(28)	**11**	4	10
Amortization to recognize transitional obligation (asset)	**(42)**	(42)	(44)	**21**	22	19
	183	203	(188)	**62**	57	(158)
Change in valuation allowance provided against prepaid benefit expense	**(26)**	13	11	**—**	—	—
Benefit expense recognized, excluding defined contribution benefit expense	**12**	81	83	**109**	126	106
Defined contribution benefit expense recognized	**5**	3	—	**—**	—	—
Total benefit expense recognized	**$ 17**	$ 84	$ 83	**$ 109**	$ 126	$ 106

(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 common shares of the Bank totalled $553 (2006 — $552; 2005 — $540).

Included in the benefit obligation and fair value of assets are the following amounts in respect of plans that are not fully funded:

	Pension plans			Other benefit plans		
For the year ended October 31 ($ millions)	**2007**	2006	2005	**2007**	2006	2005
Benefit obligation[1]	**$ 613**	$ 628	$ 787	**$ 1,047**	$ 1,075	$ 1,041
Fair value of assets	**326**	326	379	**237**	221	207
Deficit of fair value of assets over benefit obligation	**$ (287)**	$ (302)	$ (408)	**$ (810)**	$ (854)	$ (834)

(1) Includes the benefit obligation of $281 at the end of 2007 (2006 — $266; 2005 — $278) related to supplemental unfunded pension arrangements.

Key weighted-average assumptions (%)[1]

The key weighted-average assumptions used by the Bank for the measurement of the benefit obligation and benefit expense are summarized as follows:

	Pension plans			Other benefit plans		
For the year ended October 31	**2007**	2006	2005	**2007**	2006	2005
To determine benefit obligation at end of year						
Discount rate	**5.85%**	5.75%	5.50%	**6.10%**	6.00%	5.75%
Rate of increase in future compensation[2]	**3.75%**	3.50%	3.55%	**1.40%**	4.40%	3.85%
To determine benefit expense (income) for the year						
Discount rate	**5.75%**	5.50%	6.50%	**6.00%**	5.75%	6.90%
Assumed long-term rate of return on assets	**7.25%**	7.50%	7.25%	**7.10%**	7.60%	7.30%
Rate of increase in future compensation[2]	**3.50%**	3.55%	3.75%	**1.35%**	4.55%	4.00%
Health care cost trend rates at end of year						
Initial rate	**n/a**	n/a	n/a	**7.40%**	8.30%	8.90%
Ultimate rate	**n/a**	n/a	n/a	**4.70%**	4.60%	4.60%
Year ultimate rate reached	**n/a**	n/a	n/a	**2014**	2014	2014

(1) Includes international plans which generally have higher rates than Canadian plans. The discount rate used to determine the 2007 benefit expense for all Canadian pension and other benefit plans was 5.5% (2006 — 5.25%; 2005 — 6.25% for the main pension plan and 6.5% for the other Canadian pension and benefit plans). The discount rate used for the 2007 end of year benefit obligation was 5.6% for all Canadian pension and other benefit plans (2006 — 5.50%; 2005 — 5.25%) and the assumed long-term rate of return on assets for all Canadian pension plans was 7.25% (2006 — 7.25%; 2005 — 7.00%).

(2) The 2006 weighted-average rates 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

	Pension plans		Other benefit plans	
For the year ended October 31, 2007 ($ millions)	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Impact of 1% decrease in discount rate	$784	$ 79	$ 168	$ 15
Impact of 1% decrease in assumed long-term rate of return on assets	—	47	—	2
Impact of 0.25% increase in rate of increase in future compensation	48	9	1	—
Impact of 1% increase in health care cost trend rate	n/a	n/a	128	22

Impact of 1% decrease in health care cost trend rate	n/a	n/a	(102)	(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:

	Pension plans				Other benefit plans			
Asset category	**Target 2007**	**Actual 2007**	Actual 2006	Actual 2005	**Target 2007**	**Actual 2007**	Actual 2006	Actual 2005
Equity investments	**64%**	**65%**	67%	66%	**26%**	**24%**	17%	15%
Fixed income investments	**35%**	**34%**	32%	33%	**74%**	**76%**	83%	85%
Other	**1%**	**1%**	1%	1%	**—**	**—**	—	—
Total	**100%**	**100%**	100%	100%	**100%**	**100%**	100%	100%

Actuarial valuations

Actuarial valuations for the Bank's principal pension plans are generally required every three years. The most recent actuarial valuation of the Bank's main pension plan was conducted as of November 1, 2006, and the date of the next required valuation is November 1, 2009 (this plan accounts for 72% of principal pension plans' benefit obligation and 75% 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, 2005 for the other post-retirement benefits and July 31, 2006 for post-employment benefits. The next actuarial valuations are currently scheduled in fiscal 2008.

Cash payments and contributions

In fiscal year 2007, the Bank made cash payments of $216 million (2006 — $404 million; 2005 — $118 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 $62 million (2006 — $45 million; 2005 —$61 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 $5 million (2006 — $3 million; 2005 — nil) to the principal defined contribution pension plans.

19. Earnings per common share

For the year ended October 31 ($ millions)	**2007**	2006	2005
Basic earnings per common share			
Net income	**$ 4,045**	$ 3,579	$ 3,209
Preferred dividends paid	**51**	30	25
Net income available to common shareholders	**$ 3,994**	$ 3,549	$ 3,184
Average number of common shares outstanding (millions)	**989**	988	998
Basic earnings per common share[1]	**$ 4.04**	$ 3.59	$ 3.19
Diluted earnings per common share			
Net income available to common shareholders	**$ 3,994**	$ 3,549	$ 3,184
Average number of common shares outstanding (millions)	**989**	988	998
Stock options potentially exercisable (millions)[2]	**8**	13	14
Average number of diluted common shares outstanding (millions)[3]	**997**	1,001	1,012
Diluted earnings per common share[1]	**$ 4.01**	$ 3.55	$ 3.15

(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.

20. 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 16 — Stock-based compensation for further details of these plans.

21. 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.

Domestic Banking, including wealth management operations, 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 Domestic 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, 2007 ($ millions)

Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	**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**
Net income	$ 1,564	$ 1,250	$ 1,125	$ 106	**$ 4,045**
Preferred dividends paid	14	18	11	8	**51**
Net income available to common shareholders	$ 1,550	$ 1,232	$ 1,114	$ 98	**$ 3,994**
Total average assets ($ billions)	$ 154	$ 66	$ 152	$ 31	**$ 403**

For the year ended October 31, 2006 ($ millions)

Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	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
Net income	$ 1,288	$ 1,062	$ 1,053	$ 176	$ 3,579
Preferred dividends paid	9	8	6	7	30
Net income available to common shareholders	$ 1,279	$ 1,054	$ 1,047	$ 169	$ 3,549
Total average assets ($ billions)	$ 136	$ 56	$ 130	$ 29	$ 351

For the year ended October 31, 2005 ($ millions)

Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,576	$ 1,969	$ 849	$ (523)	$ 5,871
Provision for credit losses	274	70	(71)	(43)	230
Other income	1,819	793	1,320	597	4,529
Net interest and other income	5,121	2,692	2,240	117	10,170
Depreciation and amortization	130	50	20	2	202
Other non-interest expenses	3,166	1,662	909	104	5,841
Income before the undernoted:	1,825	980	1,311	11	4,127

Provision for income taxes	566	103	390	(212)	847
Non-controlling interest in net income of subsidiaries	—	71	—	—	71
Net income	$ 1,259	$ 806	$ 921	$ 223	$ 3,209
Preferred dividends paid	6	6	6	7	25
Net income available to common shareholders	$ 1,253	$ 800	$ 915	$ 216	$ 3,184
Total average assets ($ billions)	$ 123	$ 50	$ 112	$ 24	$ 309

(1) Includes revenues from all other smaller operating segments of $594 in 2007 (2006 — $372; 2005 — $432), and net income available to common shareholders of $314 in 2007 (2006 — $207; 2005 — $274). 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 $531 in 2007 (2006 — $440; 2005 — $326), changes in the general allowance, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

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Geographical segmentation[1]

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, 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**
Preferred dividends paid	20	5	6	15	**46**
	$ 2,304	$ 497	$ 505	$ 861	**$ 4,167**
Corporate adjustments					**(173)**
Net income available to common shareholders					**$ 3,994**
Total average assets ($ billions)	$ 265	$ 29	$ 21	$ 81	**$ 396**
Corporate adjustments					**7**
Total average assets, including corporate adjustments					**$ 403**

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
Preferred dividends paid	12	2	3	7	24
	$ 2,039	$ 312	$ 547	$ 674	$ 3,572
Corporate adjustments					(23)
Net income available to common shareholders					$ 3,549
Total average assets ($ billions)	$ 227	$ 31	$ 21	$ 66	$ 345
Corporate adjustments					6
Total average assets, including corporate adjustments					$ 351

For the year ended October 31, 2005 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 3,808	$ 199	$ 690	$ 1,438	$ 6,135
Provision for credit losses	262	(93)	34	70	273
Other income	2,737	484	363	716	4,300
Non-interest expenses	3,917	246	669	1,185	6,017
Provision for income taxes	450	216	1	142	809
Non-controlling interest in net income of subsidiaries	—	—	10	61	71
Preferred dividends paid	9	2	2	6	19
	$ 1,907	$ 312	$ 337	$ 690	$ 3,246
Corporate adjustments					(62)
Net income available to common shareholders					$ 3,184
Total average assets ($ billions)	$ 205	$ 25	$ 19	$ 57	$ 306

Corporate adjustments	3
Total average assets, including corporate adjustments	$ 309

(1) Revenues are attributed to countries based on where services are performed or assets are recorded.

22. 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 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)	**2007** Maximum potential amount of future payments[1]	2006 Maximum potential amount of future payments[1]
Standby letters of credit and letters of guarantee	**$ 18,435**	$ 18,486
Liquidity facilities	**22,475**	10,090
Derivative instruments	**1,361**	1,521
Securitizations	**170**	170
Indemnifications	**500**	549

(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, 2007, $11 million (2006 — $12 million) was included in other liabilities in the Consolidated Balance Sheet with respect to these guarantees.

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, 2007, these credit enhancements amounted to $1,187 million (2006 — $43 million) and are included within standby letters of credit and letters of guarantee or 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.

(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 $22,475 million (2006 —$10,090 million) in backstop liquidity facilities provided to asset backed commercial paper conduits, 89% (2006 — 73%) is committed liquidity for the Bank's sponsored conduits. The large increase in backstop liquidity facilities in 2007 was primarily attributed to the deconsolidation of the assets and liabilities of one of the Bank's sponsored conduits after it was restructured in the second quarter.

(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, 2007, $57 million (2006 — $42 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 28 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, 2007, $10 million (2006 — $12 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

(b) Other indirect commitments

In the normal course of business, various other indirect commitments are outstanding which are not reflected on the Consolidated Balance Sheet. These may include:

- Commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed;
- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions;
- Securities lending transactions under which the Bank, acting as principal or agent, agrees to lend securities to a borrower. 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)	**2007**[1]	2006[1]
Commercial letters of credit	**$ 1,186**	$ 982
Commitments to extend credit[2]		
Original term to maturity of one year or less	**67,861**	61,453
Original term to maturity of more than one year	**46,388**	44,465
Securities lending	**10,965**	8,682
Security purchase and other commitments	**1,676**	3,299
Total	**$128,076**	$118,881

(1) Amounts relating to variable interest entities are disclosed in Note 6.

(2) Includes liquidity facilities

(c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2007, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year ($ millions)	
2008	$ 169
2009	144
2010	121
2011	96
2012	73
2013 and thereafter	191
Total	$ 794

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $197 million (2006 —$181 million; 2005 — $176 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)	**2007**	2006

Assets pledged to:		
Bank of Canada[1]	**$ 30**	$ 25
Foreign governments and central banks[1]	**3,011**	2,605
Clearing systems, payment systems and depositories[1]	**1,629**	1,531
Assets pledged in relation to exchange-traded derivative transactions	**179**	108
Assets pledged as collateral related to securities borrowed, and securities lent	**29,585**	24,955
Assets pledged in relation to over-the-counter derivative transactions	**4,049**	1,744
Other	**1,692**	1,609
Total assets pledged	**$40,175**	$32,577
Obligations related to securities sold under repurchase agreements	**28,137**	33,470
Total	**$68,312**	$66,047

(1) Includes assets pledged in order to participate in clearing and payment systems and depositories, or to have access to the facilities of central banks in foreign jurisdictions.

(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.

23. Financial instruments

(a) Financial risk management

The Bank's primary 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 Bank has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities. The risks that arise from transacting financial instruments include credit risk, liquidity risk, operational risk and market risk. Market risk arises from changes in interest rates, foreign currency exchange rates and equity prices. The Bank manages these risks using extensive risk management policies and practices, including various Board-approved risk management limits and techniques.

The Bank's risk management framework has four main components as follows:

- Policies which define the Bank's risk tolerance and set the limits and controls within which the Bank and its subsidiaries can operate. These policies are developed based on the requirements of regulatory authorities and are approved by the Bank's Board of Directors.
- Guidelines are developed to clarify risk limits and conditions under which the Bank's risk policies are implemented.
- Processes are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and expectations in terms of quality of information required to make a decision.
- Compliance with risk policies, limits and guidelines is measured and periodically independently reported to ensure consistency against defined goals.

The risks associated with the Bank's financial instruments portfolios are assessed using various methods which include, but are not limited to Value at Risk, stress testing, sensitivity analysis and simulation modeling, as well as gap analysis. Further details are provided below on the fair value of financial instruments and how these amounts were determined. This note also presents the Bank's interest rate risk by term based on the earlier of contractual repricing or maturity dates, and the Bank's financial instrument credit exposure by sector and geography. Note 25 provides details on the terms and conditions of the Bank's financial instruments including notional amounts, remaining term to maturity, credit risk, and fair values of derivatives used in trading activities and asset/liability management.

(b) Fair value

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by quoted market prices, if they exist. Some of the Bank's financial instruments lack an active trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments resulting in a favourable or unfavourable variance compared to book value. For the Bank's financial instruments carried at cost or amortized cost, the book value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value. In addition, commencing fiscal 2007, available-for-sale securities are also recorded at fair value (see Note 1).

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.

	2007			2006		
As at October 31 ($ millions)	**Total fair value**	**Total carrying value**	**Favourable/ (Unfavourable)**	Total fair value	Total carrying value	Favourable/ (Unfavourable)
Assets:						
Cash resources	**$ 29,195**	**$ 29,195**	**$ —**	$ 23,376	$ 23,376	$ —
Securities	**88,835**	**88,835**	**—**	96,593	95,502	1,091[1]
Securities purchased under resale agreements	**22,542**	**22,542**	**—**	25,705	25,705	—
Loans	**226,731**	**227,147**	**(416)**	202,781	202,774	7
Customers' liability under acceptances	**11,538**	**11,538**	**—**	9,555	9,555	—
Other	**4,180**	**4,180**	**—**	4,075	4,075	—
Liabilities:						
Deposits	**288,726**	**288,458**	**(268)**	264,282	263,914	(368)
Acceptances	**11,538**	**11,538**	**—**	9,555	9,555	—
Obligations related to securities sold under repurchase agreements	**28,137**	**28,137**	**—**	33,470	33,470	—
Obligations related to securities sold short	**16,039**	**16,039**	**—**	13,396	13,396	—
Other	**20,722**	**20,722**	**—**	24,629	24,629	—
Subordinated debentures	**1,788**	**1,710**	**(78)**	2,444	2,271	(173)
Capital instrument liabilities	**529**	**500**	**(29)**	809	750	(59)
Derivatives (Note 25)	**(2,729)**	**(2,729)[2]**	**—**	(873)	(771)[2]	(102)

(1) This excludes net deferred hedge losses on securities of $93.

(2) This represents a net liability.

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. 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.

Determination of fair value

The following methods and assumptions were used to estimate the fair values of financial instruments (refer to Note 25(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, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.
- For all other loans, fair value is determined by discounting the expected future cash flows of these loans at market rates for loans with similar terms and risks.

The fair values of deposits payable on demand or after notice or floating rate deposits payable on a fixed date are assumed to be equal to their carrying values. The estimated fair values of fixed-rate deposits payable on a fixed date are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

The fair values of subordinated debentures and 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.

(c) Interest rate risk

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, 2007 ($ millions)	Immediately rate sensitive[1]	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	$ 4,411	$ 15,988	$ 2,352	$ 375	$ 42	$ 6,027	**$ 29,195**
Trading securities	—	6,200	4,065	8,814	8,818	31,788	**59,685**
Securities, other than trading	436	3,930	3,752	12,293	4,751	3,988[2]	**29,150**
Securities purchased under resale agreements	—	21,100	1,442	—	—	—	**22,542**
Loans	28,126	89,177	21,983	82,137	6,421	(697)[3]	**227,147**
Other assets	—	—	—	—	—	43,791[4]	**43,791**
Total assets	$ 32,973	$136,395	$ 33,594	$103,619	$20,032	$ 84,897	**$411,510**
Deposits	$ 28,501	$164,933	$ 42,887	$ 34,509	$ 5,405	$ 12,223	**$288,458**
Obligations related to securities sold under repurchase agreements	—	25,853	2,284	—	—	—	**28,137**
Obligations related to securities sold short	—	1,045	876	5,612	5,449	3,057	**16,039**
Subordinated debentures	—	—	445	763	502	—	**1,710**
Capital instrument liabilities	—	—	—	500	—	—	**500**
Other liabilities	—	—	—	—	—	57,862[4]	**57,862**
Shareholders' equity	—	—	—	—	—	18,804[4]	**18,804**
Total liabilities and shareholders' equity	$ 28,501	$191,831	$ 46,492	$ 41,384	$11,356	$ 91,946	**$411,510**
On-balance sheet gap	4,472	(55,436)	(12,898)	62,235	8,676	(7,049)	**—**
Derivative instruments	—	22,539	(1,348)	(19,544)	(1,647)	—	**—**
Interest rate sensitivity gap based on contractual repricing	4,472	(32,897)	(14,246)	42,691	7,029	(7,049)	**—**
Adjustment to expected repricing	13,021	24,824	7,386	(22,745)	(4,415)	(18,071)	**—**
Total interest rate sensitivity gap	**$ 17,493**	**$ (8,073)**	**$ (6,860)**	**$ 19,946**	**$ 2,614**	**$(25,120)**	**$ —**
Cumulative gap	**17,493**	**9,420**	**2,560**	**22,506**	**25,120**	**—**	**—**

As at October 31, 2006 ($ millions)							
Total interest rate sensitivity gap	$ 12,220	$ (12,882)	$ (4,400)	$ 23,668	$ 3,921	$(22,527)	$ —
Cumulative gap	$ 12,220	$ (662)	$ (5,062)	$ 18,606	$22,527	$ —	$ —

(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.

The tables on the following page summarize average effective yields, by the earlier of the contractual repricing or maturity dates, for the following rate-sensitive financial instruments.

Average effective yields by the earlier of the contractual repricing or maturity dates:

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[2]	5.5	5.1	5.4	5.5	6.2	**5.6**
Securities purchased under resale agreements	—	4.9	5.3	—	—	**4.9**
Loans[3]	6.6	6.5	6.1	5.8	8.2	**6.3**
Deposits[4]	3.8	4.3	4.4	4.0	4.1	**4.2**
Obligations related to securities sold under repurchase agreements[4]	—	5.2	5.4	—	—	**5.2**
Obligations related to securities sold short	—	4.1	4.3	4.0	4.6	**4.3**
Subordinated debentures[4]	—	—	5.9	5.6	8.6	**6.6[1]**
Capital instrument liabilities[4]	—	—	—	7.3	—	**7.3**
Other liabilities	—	—	—	—	—	**—**

As at October 31, 2006	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	4.3%	4.8%	5.0%	4.7%	—%	4.8%
Trading securities	—	6.3	4.4	4.5	5.1	5.1
Investment securities[2]	5.2	5.4	4.4	4.5	6.0	5.1
Securities purchased under resale agreements	—	4.8	6.3	—	—	4.9
Loans[3]	7.0	6.5	6.3	5.7	7.2	6.4
Deposits[4]	4.0	4.0	4.1	4.0	5.1	4.0
Obligations related to securities sold under repurchase agreements[4]	—	4.8	6.5	—	—	4.9
Obligations related to securities sold short	—	4.6	4.2	4.3	4.3	4.3
Subordinated debentures[4]	—	—	6.0	5.8	8.6	6.5[1]
Capital instrument liabilities[4]	—	—	—	7.1	—	7.1
Other liabilities	—	5.3	5.3	—	—	5.3

(1) After adjusting for the impact of related derivatives, the yield was 5.5% (2006 — 6.2%).

(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 deferred income.

(4) Yields are based on book values and contractual rates.

(d) Credit exposure

The following table summarizes the credit exposure of the Bank to businesses and governments, less the related allowance for credit losses:

	2007				2006[6]
As at September 30 ($ millions)	Loans and acceptances[1]	Derivative instruments[2]	Other exposures[4]	**Total**	Total
By sector:					

Resource and manufacturing, excluding automotive	$ 24,831	$ 1,065	$ 5,131	**$ 31,027**	$ 27,832
Finance and government	22,389	18,113	7,755	**48,257**	34,220
Other	42,741	2,782	8,393	**53,916**	50,851
Total	$ 89,961	$ 21,960	$21,279	**$133,200**	$112,903
Allowance for credit losses[3]				**1,639**	1,996
				$131,561	$110,907
By geography[5]:					
Canada	$ 36,540	$ 9,726	$ 6,261	**$ 52,527**	$ 44,765
United States	14,924	5,798	10,273	**30,995**	27,264
Mexico	4,648	15	252	**4,915**	6,066
Other International	33,849	6,421	4,493	**44,763**	34,808
Total	$ 89,961	$ 21,960	$21,279	**$133,200**	$112,903
Allowance for credit losses[3]				**1,639**	1,996
				$131,561	$110,907

(1) Excludes securities purchased under resale agreements.

(2) Derivative instruments are as at October 31.

(3) Allowance for credit losses is as at October 31, and is comprised of specific allowances and the related portion of the general allowance.

(4) Comprises guarantees and letters of credit.

(5) Geographic segmentation is based upon the location of the ultimate risk of the credit exposure.

(6) Reclassified to conform with current period presentation.

24. Certain items designated as trading

As permitted by the new financial instrument accounting standards [refer to Note 1], on November 1, 2006, the Bank elected to designate certain assets and liabilities as trading under the fair value option. These financial instruments are carried at fair value in the Consolidated Balance Sheet and all fair value changes are recognized in the Consolidated Statement of 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. By classifying these loans as trading, the fair value changes will be recorded in income along with the fair value changes of the derivative. As a result, the Bank significantly reduces or eliminates an accounting mismatch between the two instruments. The fair value of these traded loans is based on quoted market prices. The fair value of these loans outstanding as at October 31, 2007 was $4.1 billion (November 1, 2006 — $3.3 billion). The change in fair value that was recorded through trading revenues for the year ended October 31, 2007 was a gain of $234 million. These changes were entirely 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 traded loans is based on quoted market prices. The fair value of these loans outstanding as at October 31, 2007 was $151 million (November 1, 2006 — $164 million). The change in fair value that was recorded through trading revenues for the year ended October 31, 2007 was a gain of $11 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 deposit note liabilities, including the extension feature, is determined by discounting expected future cash flows using current market rates offered for similar instruments. The fair value of these liabilities outstanding as at October 31, 2007 was $847 million (November 1, 2006 — $785 million). For the year ended October 31, 2007, the change in fair value that was recorded through net interest income on these deposit note liabilities was a gain of $4 million. The changes in fair value are due to changes in market interest rates; except for an insignificant change in fair value attributable to credit risk. These changes in fair value were mostly offset by the change in fair value of the related derivatives.

25. 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. Other derivative contracts — other includes precious metals other than gold, and base metal derivatives.

	2007			2006		
As at October 31 ($ millions)	Trading	ALM	**Total**	Trading	ALM	Total
Interest rate contracts						
Exchange-traded:						
Futures	$ 74,620	$ 12,706	**$ 87,326**	$112,055	$ 12,199	$ 124,254
Options purchased	3,378	—	**3,378**	13,788	—	13,788
Options written	9,702	—	**9,702**	2,128	—	2,128
	87,700	12,706	**100,406**	127,971	12,199	140,170
Over-the-counter:						
Forward rate agreements	23,387	9,688	**33,075**	13,649	10,070	23,719
Swaps	468,382	96,883	**565,265**	386,311	85,844	472,155
Options purchased	49,378	5,663	**55,041**	21,384	2,908	24,292
Options written	28,192	353	**28,545**	23,970	1,921	25,891
	569,339	112,587	**681,926**	445,314	100,743	546,057
Total	$ 657,039	$125,293	**$ 782,332**	$573,285	$112,942	$ 686,227
Foreign exchange and gold contracts						
Exchange-traded:						
Futures	$ 9,548	$ —	**$ 9,548**	$ 6,868	$ —	$ 6,868
Options purchased	56	—	**56**	124	—	124
Options written	72	—	**72**	104	—	104
	9,676	—	**9,676**	7,096	—	7,096
Over-the-counter:						
Spot and forwards	254,239	13,158	**267,397**	176,030	14,141	190,171
Swaps	63,345	34,168	**97,513**	60,356	25,004	85,360
Options purchased	2,567	—	**2,567**	2,475	—	2,475
Options written	2,526	—	**2,526**	2,478	—	2,478
	322,677	47,326	**370,003**	241,339	39,145	280,484
Total	$ 332,353	$ 47,326	**$ 379,679**	$248,435	$ 39,145	$ 287,580
Other derivative contracts						
Equity: over-the-counter	$ 34,382	$ 3,928	**$ 38,310**	$ 27,678	$ 3,595	$ 31,273
Credit: over-the-counter	79,135	1,490	**80,625**	32,832	1,993	34,825
Other	6,078	43	**6,121**	4,731	31	4,762
Total	$ 119,595	$ 5,461	**$ 125,056**	$ 65,241	$ 5,619	$ 70,860
Total notional amounts outstanding	$1,108,987	$178,080	**$1,287,067**	$886,961	$157,706	$1,044,667

(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, 2007 ($ millions)	Within 1 year	One to 5 years	Over 5 years	**Total**
Interest rate contracts				
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**
Foreign exchange and gold contracts				
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**
Other derivative contracts				
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**
Total	$670,157	$434,118	$182,792	**$1,287,067**

As at October 31, 2006 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$107,420	$ 16,834	$ —	$ 124,254
Forward rate agreements	23,384	335	—	23,719
Swaps	134,288	248,080	89,787	472,155
Options purchased	27,482	9,750	848	38,080
Options written	12,962	10,111	4,946	28,019
	305,536	285,110	95,581	686,227
Foreign exchange and gold contracts				
Futures	5,351	1,517	—	6,868
Spot and forwards	180,257	8,874	1,040	190,171
Swaps	14,467	47,593	23,300	85,360
Options purchased	2,432	167	—	2,599
Options written	2,443	139	—	2,582
	204,950	58,290	24,340	287,580
Other derivative contracts				
Equity	27,096	3,739	438	31,273
Credit	11,298	18,072	5,455	34,825
Other	4,178	584	—	4,762
	42,572	22,395	5,893	70,860
Total	$553,058	$365,795	$125,814	$1,044,667

(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.

The following table summarizes the credit exposure of the Bank's derivatives. The credit risk amount (CRA) represents the estimated replacement cost, or positive fair value, for all contracts without taking into account any master netting or collateral arrangements that have been made. The CRA does not reflect actual or expected losses.

The credit equivalent amount (CEA) is the CRA plus an add-on for potential future exposure. The add-on amount is based on a formula prescribed in the Capital Adequacy Guideline of the Superintendent. The risk-weighted balance is the CEA multiplied by counterparty risk factors prescribed by this Guideline. Other derivative contracts — other includes precious metals other than gold, and base metal derivatives.

	2007					2006		
As at October 31 ($ millions)	Notional amount	Credit risk amount (CRA) (a)	Potential future exposure (b)	Credit equivalent amount (CEA) (a) + (b)	**Risk-weighted balance**	Credit risk amount (CRA)	Credit equivalent amount (CEA)	Risk-weighted balance
Interest rate contracts								
Futures	$ 87,326	$ —	$ —	$ —	**$ —**	$ —	$ —	$ --
Forward rate agreements	33,075	9	8	17	**7**	13	18	8
Swaps	565,265	3,470	2,748	6,218	**1,512**	3,231	5,584	1,344
Options purchased	58,419	147	48	195	**46**	185	246	62
Options written	38,247	—	—	—	**—**	—	—	—
	782,332	3,626	2,804	6,430	**1,565**	3,429	5,848	1,414
Foreign exchange and gold contracts								
Futures	9,548	—	—	—	**—**	—	—	—
Spot and forwards	267,397	7,579	2,685	10,264	**2,860**	2,914	5,023	1,403
Swaps	97,513	8,652	5,012	13,664	**3,236**	4,185	8,457	2,120
Options purchased	2,623	158	30	188	**82**	64	97	35
Options written	2,598	—	—	—	**—**	—	—	—
	379,679	16,389	7,727	24,116	**6,178**	7,163	13,577	3,558
Other derivative contracts								
Equity	38,310	667	2,319	2,986	**887**	632	2,564	739
Credit	80,625	1,058	4,383	5,441	**1,565**	200	2,130	682
Other	6,121	220	479	699	**297**	418	723	273
	125,056	1,945	7,181	9,126	**2,749**	1,250	5,417	1,694
Total derivatives	$1,287,067	$21,960	$17,712	$39,672	**$10,492**	$11,842	$24,842	$ 6,666

Less: impact of master netting agreements	11,841	6,228	18,069	**4,167**	5,772	10,586	2,484
Total	$10,119	$11,484	$21,603	**$ 6,325**	$ 6,070	$14,256	$ 4,182

(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 trading 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).

	2007		**2007**		2006	
	Average fair value[1]		**Year-end fair value**		Year-end fair value	
As at October 31 ($ millions)	Favourable	Unfavourable	**Favourable**	**Unfavourable**	Favourable	Unfavourable
Trading						
Interest rate contracts						
Forward rate agreements	$ 4	$ 9	**$ 7**	**$ 15**	$ 13	$ 1
Swaps	2,843	2,732	**3,006**	**2,828**	2,827	2,658
Options	155	163	**143**	**143**	184	193
	3,002	2,904	**3,156**	**2,986**	3,024	2,852
Foreign exchange and gold contracts						
Forwards	3,563	3,216	**7,466**	**7,013**	2,810	2,629
Swaps	4,001	3,439	**6,725**	**5,876**	3,551	3,047
Options	83	59	**158**	**103**	64	63
	7,647	6,714	**14,349**	**12,992**	6,425	5,739
Other derivative contracts						
Equity	1,310	1,333	**431**	**1,653**	337	1,578
Credit	661	1,191	**1,046**	**1,654**	194	816
Other	260	214	**165**	**237**	389	226
	2,231	2,738	**1,642**	**3,544**	920	2,620
Trading derivatives' market valuation	$ 12,880	$ 12,356	**$ 19,147**	**$ 19,522**	$ 10,369	$ 11,211
ALM [2]						
Interest rate contracts						
Forward rate agreements			**$ 2**	**$ —**	$ —	$ 1
Swaps			**464**	**447**	404	409
Options			**4**	**—**	1	1
			470	**447**	405	411
Foreign exchange and gold contracts						
Forwards			**113**	**646**	104	86
Swaps			**1,927**	**3,982**	634	988
Options			**—**	**—**	—	—
			2,040	**4,628**	738	1,074
Other derivative contracts						
Equity			**236**	**26**	295	5
Credit			**12**	**66**	6	14
Other			**55**	**—**	29	—
			303	**92**	330	19
ALM derivatives' market valuation			**$ 2,813**	**$ 5,167**	$ 1,473	$ 1,504
Total derivative instruments before netting			**$ 21,960**	**$ 24,689**	$ 11,842	$ 12,715
Less: impact of master netting						

agreements	**11,841**	**11,841**	5,772	5,772
Total derivative instruments	**$ 10,119**	**$ 12,848**	$ 6,070	$ 6,943

(1) The average fair value of trading derivatives' market valuation for the year ended October 31, 2006 are: favourable $12,693 and unfavourable $12,683. Average fair value amounts are based on month-end balances.

(2) The changes in the fair values of these derivative instruments wholly or partially offset the changes in the fair values of related on-balance sheet financial instruments, specific firm commitments or forecasted transactions.

Included in the above ALM derivatives' market valuation amounts are derivatives designated in hedging relationships as follows:

As at October 31 ($ millions)	2007 Favourable	2007 Unfavourable
Derivatives designated in fair value hedging relationships	**$ 178**	**$ 1,013**
Derivatives designated in cash flow hedging relationships	**$ 1,021**	**$ 2,206**

The Bank recorded a net loss of $11 million during the year, of which a loss of $20 million related to cash flow hedges, due to the ineffective portion of designated hedges.

26. Acquisitions

(a) Canadian acquisitions

Current 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.

As well, 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 is a combination of voting and convertible non-voting shares issued out of treasury by DundeeWealth Inc. This investment is accounted for under the equity method of accounting. The Bank has not completed its valuation of the assets acquired and liabilities assumed.

Prior Year

The Bank completed the acquisitions of (i) the Canadian operations of the National Bank of Greece on February 3, 2006, and (ii) Maple Trust Company on March 31, 2006.

The combined investment in these companies was approximately $306 million, which included amounts invested directly in the acquired businesses. Total assets at acquisition were $2.2 billion, comprised almost entirely of loans. The total goodwill of $140 million and other intangible assets of $52 million were recorded in the Consolidated Balance Sheet. In addition to the purchase of Maple Trust Company, as part of the acquisition of the Canadian mortgage operations of Maple Financial Group Inc., the Bank purchased mortgages from the Group.

(b) International acquisitions

Current 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.

Prior Year

The Bank completed the acquisition of Corporacion Interfin, on September 1, 2006, the parent company of Banco Interfin in Costa Rica, for $325 million. Total assets at acquisition were approximately $1.6 billion, with the majority of the assets being loans. Goodwill of $247 million and other intangible assets of $28 million have been recorded in the Consolidated Balance Sheet.

The Bank acquired two Peruvian banks, Banco Wiese Sudameris and Banco Sudamericano, on March 9, 2006, which were subsequently merged. The combined incremental investment in these companies was $385 million, which includes amounts invested directly in the acquired business. The Bank now owns approximately 78% of the combined entity. Prior to the latter transaction, the Bank owned 35% of Banco Sudamericano. Total assets acquired were $3.8 billion, with the majority of the assets being loans. For the purchase of the Peruvian banks, total goodwill of $189 million and other intangible assets of $34 million have been recorded in the Consolidated Balance Sheet.

(c) Subsequent event

The Bank completed the acquisition of Chile's Banco del Desarrollo on November 26, 2007, through the acquisition of 99.5% of the outstanding shares for $1.0 billion. Total assets at acquisition were $5.6 billion, mainly comprised of loans. The Bank will combine the operations of Banco del Desarrollo with its existing Scotiabank Sud Americano banking operations.

The purchase price allocations for 2007 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.

27. 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

	Net income		
For the year ended October 31 ($ millions)	**2007**	2006	2005
Net income based on Canadian GAAP	**$ 4,045**	$ 3,579	$ 3,209
Employee future benefits (a)	**(31)**	24	(16)
Restructuring costs (b)	**—**	—	(2)
Transfers of loans through securitizations (c)	**4**	(9)	(8)
Derivative instruments and hedging activities (d)	**(30)**	(1)	(1)
Unrealized gains (losses) on securities reclassified as trading (d)	**(12)**	(2)	(7)
Conversion of loans into debt securities (e)	**29**	9	86
Available-for-sale securities (e)	**7**	8	45
Computer software (f)	**(11)**	(20)	(22)
Stock-based compensation (g)	**(17)**	(23)	—
Stock-based compensation—transition adjustment (g)	**—**	(12)	—
Tax effect of above differences	**32**	3	(21)
Net income based on U.S. GAAP	**$ 4,016**	$ 3,556	$ 3,263
Preferred dividends paid and other	**(51)**	(30)	(25)
Net income available to common shareholders based on U.S. GAAP	**$ 3,965**	$ 3,526	$ 3,238
Earnings per common share based on U.S. GAAP (in dollars)[1]:			
Basic	**$ 4.01**	$ 3.57	$ 3.24
Diluted	**$ 3.98**	$ 3.52	$ 3.20

(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 following table shows the effect of adopting the new U.S. GAAP standard on employee future benefits at October 31, 2007 on individual line items in the U.S. GAAP Consolidated Balance Sheet as at October 31, 2007. The adoption of this new standard had no effect on the Bank's Consolidated Statement of Income under U.S. GAAP for the year ended October 31, 2007.

As at October 31, 2007 ($ millions)	Before application of new standard	Adjustments	After application of new standard
Other assets			
Prepaid benefit cost	$ 1,294	$ 136	$ 1,430
Other liabilities			
Accrued benefit liability	(505)	(574)	(1,079)
Minimum pension liability	(36)	36	—
Accumulated other comprehensive income (loss)	$ (36)[1]	$ (402)	$ (438)[2]

(1) Amount after related taxes is $(24).

(2) Amount after related taxes is $(286).

(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, effective November 1, 2006, Canadian GAAP became substantially consistent with U.S. GAAP for the Bank's activities relating to hedging, embedded derivatives and recognition of inception gains on derivatives valued using unobservable market data. As a result, the current year reconciling items between Canadian and U.S. GAAP relate primarily to the current year impact of GAAP differences recognized in prior years.

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 and an after-tax loss of $5 million in 2005 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 and an after-tax gain of $7 million in 2005 from accumulated other comprehensive income to earnings as a result of its cash flow hedges within the next twelve months. For fiscal 2007, 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 25 and 15, 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 and an after-tax gain of $1 million in 2005.

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.

(e) Securities

As described in Note 1, effective November 1, 2006, Canadian GAAP was 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 2007 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.

(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. For fiscal 2007, the incremental pre-tax U.S. GAAP stock-based compensation expense impact is $17 million (2006 – $23 million).

These amounts were quantified using the Black-Scholes option pricing model and the following weighted average assumptions:

As at	October 31, 2007	October 31, 2006
Risk-free interest rate	4.59%	4.16%
Expected dividend yield	3.37%	3.16%
Expected price volatility	18.1%	16.5%
Expected life of option	6.1 years	5.7 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.

(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) Guarantees

U.S. GAAP requires recognition of a liability for the fair value of the obligation assumed at the inception of the arrangement for guarantees issued or modified after December 31, 2002. As described in Note 1, Canadian GAAP requires the same treatment for all financial guarantees effective November 1, 2006 on a prospective basis, consistent with U.S. GAAP. There is no material difference between Canadian and U.S. GAAP on October 31, 2007. The fair value under U.S. GAAP for guarantees at October 31, 2006 amounted to $340 million.

(j) 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 $11,154 million (2006 — $8,922 million) and an addition to other liabilities of $11,154 million (2006 — $8,922 million).

(k) 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 fiscal 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.

(l) Non-controlling interest in subsidiaries

Under U.S. GAAP, non-controlling interest in subsidiaries is presented separately.

Consolidated statement of comprehensive income (loss)

	2007				
For the year ended October 31 ($ millions)	**Canadian GAAP**	**Adjustments**	**U.S. GAAP**	2006	2005
Net income	**$ 4,045**	**$ (29)**	**$ 4,016**	$ 3,556	$ 3,263
Other comprehensive income (loss), net of income taxes:					
Change in unrealized foreign currency translation					

gains (losses), net of hedging activities[1]	**(2,228)**	**(2)**	**(2,230)**	(360)	(178)
Change in unrealized gains (losses) on available-for-sale securities, net of hedging activities[2]	**(67)**	**(74)**	**(141)**	(18)	(211)
Change in gains (losses) on derivative instruments designated as cash flow hedges [3]	**76**	**39**	**115**	(38)	9
Change in additional minimum pension liability[4]	**—**	**—**	**—**	2	(29)
Total other comprehensive income (loss)	**$ (2,219)**	**$ (37)**	**$(2,256)**	$ (414)	$ (409)
Total comprehensive income (loss)	**$ 1,826**	**$ (66)**	**$ 1,760**	$ 3,142	$ 2,854

Accumulated other comprehensive income (loss)[5]

	2007				
For the year ended October 31 ($ millions)	**Canadian GAAP**	**Adjustments**	**U.S. GAAP**	2006	2005
Unrealized foreign currency translation gains (losses), net of hedging activities	**$ (4,549)**	**$ (116)**	**$(4,665)**	$(2,435)	$(2,075)
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	**639**	**62**	**701**	842	860
Derivative instruments designated as cash flow hedges	**53**	**7**	**60**	(55)	(17)
Employee future benefits [6]	**—**	**(286)**	**(286)**	(39)	(41)
Total accumulated other comprehensive income (loss)	**$ (3,857)**	**$ (333)**	**$(4,190)**	$(1,687)	$(1,273)

(1) U.S. GAAP amounts are net of income tax expense of $427 (2006 — nil; 2005 — nil).

(2) U.S. GAAP amounts are net of income tax benefit of $65 (2006 — benefit of $4; 2005 — benefit of $112).

(3) U.S. GAAP amounts are net of income tax expense of $48 (2006 — benefit of $20; 2005 — expense of $3).

(4) U.S. GAAP amounts are net of income tax of nil (2006 — expense of $2; 2005 — benefit of $16).

(5) All amounts presented are net of income tax.

(6) 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.

CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated balance sheet

As at October 31 ($ millions)	2007 Canadian GAAP	2007 Adjustments	2007 U.S. GAAP	2006 Canadian GAAP	2006 Adjustments	2006 U.S. GAAP
Assets						
Cash resources	**$ 29,195**	**$ —**	**$ 29,195**	$ 23,376	$ —	$ 23,376
Securities						
Trading	**59,685**	**1,042[d,e]**	**60,727**	62,490	166[d,e]	62,656
Available-for-sale/Investment	**28,426**	**(279)[d,e]**	**28,147**	32,870	585[d,e]	33,455
Equity accounted investments	**724**	**—**	**724**	142	—	142
Securities purchased under resale agreements	**22,542**	**—**	**22,542**	25,705	—	25,705
Loans	**227,147**	**1,215[c,d]**	**228,362**	202,774	1,332[c,d]	204,106
Derivative instruments	**21,960**	**—**	**21,960**	12,098	428[d]	12,526
Other	**21,831**	**13,261[(1)]**	**35,092**	19,551	12,851[(5)]	32,402
	$411,510	**$ 15,239**	**$426,749**	$379,006	$ 15,362	$394,368
Liabilities and shareholders' equity						
Liabilities						
Deposits	**$288,458**	**$ 1,224[c,d]**	**$289,682**	$263,914	$ 1,358[c,d]	$265,272
Derivative instruments	**24,689**	**(5)[d]**	**24,684**	12,869	505[d]	13,374
Other	**76,852**	**14,283[(2)]**	**91,135**	81,220	12,838[(6)]	94,058
Non-controlling interest in subsidiaries	**497**	**(497)[l]**	**—**	435	(435)[l]	—
Subordinated debentures	**1,710**	**25[d]**	**1,735**	2,271	14[d]	2,285
Capital instrument liabilities	**500**	**(500)[h]**	**—**	750	(750)[h]	—
	$392,706	**$ 14,530**	**$407,236**	$361,459	$ 13,530	$374,989
Non-controlling interest in subsidiaries	**$ —**	**$ 997[h,l]**	**$ 997**	$ —	$ 1,185[h,l]	$ 1,185
Shareholders' equity						
Capital stock						
Preferred shares	**$ 1,635**	**$ —**	**$ 1,635**	$ 600	$ —	$ 600
Common shares and contributed surplus	**3,566**	**—**	**3,566**	3,425	—	3,425
Retained earnings	**17,460**	**45[(3)]**	**17,505**	15,843	13[(7)]	15,856
Cumulative foreign currency translation	**—**	**—**	**—**	(2,321)	2,321[k]	—
Accumulated other comprehensive income (loss)	**(3,857)**	**(333)[(4)]**	**(4,190)**	—	(1,687)[(8)]	(1,687)
	$ 18,804	**$ (288)**	**$ 18,516**	$ 17,547	$ 647	$ 18,194
	$411,510	**$ 15,239**	**$426,749**	$379,006	$ 15,362	$394,368

Note references refer to GAAP differences described above.

(1) Refer to a, b, c, d, e, f, j.

(2) Refer to a, b, c, e, g, j.

(3) Refer to a, b, c, d, e, f, g.

(4) Refer to a, d, e, k.

(5) Refer to a, b, c, d, e, f, i, j.

(6) Refer to a, b, c, d, e, g, i, j.

(7) Refer to a, b, c, d, e, f, g.

(8) Refer to a, d, e, k.

Certain comparative accounts have been reclassified to conform with current period presentation.

Future accounting changes

Accounting for uncertainty in income taxes

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 (FIN 48)*, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. This FASB interpretation is effective for the Bank beginning November 1, 2007. The Bank is currently assessing the impact of this standard.

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.

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.

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PRINCIPAL SUBSIDIARIES

Principal Subsidiaries[1]

As at October 31, 2007 ($ millions)	Principal office	Carrying value of shares
Canadian		
BNS Capital Trust	Toronto, Ontario	$ 122
BNSII Group	Toronto, Ontario	$10,014
Montreal Trust Company of Canada	Montreal, Quebec	
MontroServices Corporation	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
BNS Investments Inc.	Toronto, Ontario	
Dundee Bank of Canada	Toronto, Ontario	$ 260
Maple Trust Company	Toronto, Ontario	$ 258
National Trustco Inc.	Toronto, Ontario	$ 468
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Toronto, Ontario	
RoyNat Inc.	Toronto, Ontario	$ 60
Scotia Capital Inc.	Toronto, Ontario	$ 290
Scotia Cassels Investment Counsel Limited	Toronto, Ontario	$ 14
Scotia Life Insurance Company	Toronto, Ontario	$ 93
Scotia Mortgage Corporation	Toronto, Ontario	$ 255
Scotia Securities Inc.	Toronto, Ontario	$ 500
Scotiabank Capital Trust[2]	Toronto, Ontario	$ 6
Scotiabank Subordinated Notes Trust[2]	Toronto, Ontario	$ 1
Travelers Leasing Corporation	Burnaby, British Columbia	$ 59
TradeFreedom Securities Inc.	Montreal, Quebec	$ 25
International		
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	$ 140
The Bank of Nova Scotia International Limited	Nassau, Bahamas	$ 6,789
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	$ 324
The Bank of Nova Scotia Jamaica Limited	Kingston, Jamaica	
Dehring, Bunting & Golding Limited (55.3%)	Kingston, Jamaica	
Grupo Financiero Scotiabank Inverlat, S.A. de C.V. (97.3%)	Mexico, D.F., Mexico	$ 1,939
Nova Scotia Inversiones Limitada	Santiago, Chile	$ 415
Scotiabank Sud Americano, S.A. (98.8%)	Santiago, Chile	
Scotia Capital (USA) Inc.	New York, New York	[3]
Scotia Holdings (US) Inc.	Houston, Texas	[4]
The Bank of Nova Scotia Trust Company of New York	New York, New York	
Scotiabanc Inc.	Houston, Texas	
Scotia International Limited	Nassau, Bahamas	$ 802
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	$ 167
Scotiabank El Salvador, S.A. (99.4%)	San Salvador, El Salvador	$ 310
Scotiabank Europe plc	London, England	$ 2,107
Scotiabank Peru S.A.A. (77.8%)	Lima, Peru	$ 552

Scotiabank Trinidad & Tobago Limited (50.9%)	Port of Spain, Trinidad	$	130

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

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

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

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

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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, 2007, 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 6, 2007

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, 2007, 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, 2007, 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, 2007 and 2006 and the consolidated statements of income, changes in shareholders' equity, comprehensive income, and cash flows for the years then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Our report dated December 6, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Canada,

December 6, 2007

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Exhibit 6

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, 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 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 "A" thereto.

Director Independence

The Bank is committed to complying with all applicable laws, rules and regulations related to the status of its Directors. The 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.

Fourteen of fifteen, or 93.3%, 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, The Honourable Barbara J. McDougall, Elizabeth Parr-Johnston, Alexis E. Rovzar, Arthur R.A. Scace, Paul D. Sobey, Allan C. Shaw and Barbara S. Thomas.

As of December 6, 2007, 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 was also determined to be 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$100,000 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 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 (but is no longer) 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, 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.

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Exhibit 7

POLICY FOR THE PRE-APPROVAL OF SERVICES PERFORMED BY THE EXTERNAL AUDITOR

March 5, 2007

The Bank of Nova Scotia Policy for the Pre-Approval of Services Performed by the External Auditor

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2. Required Pre-Approval Policy 2

3. Permitted Services 3

4. Prohibited services 4

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6. Reporting to the Audit and Conduct Review Committee 5

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1. Objective

The objective of this Policy is to specify the scope of services permitted to be performed by the Audit Firm appointed by The Bank of Nova Scotia ("the Bank") to be the auditor of the Bank ("External Auditor") and to ensure that the independence of the External Auditor is not compromised through engaging it for other services. Consequently, this Policy specifies:

(a) The types of services that are permitted and pre-approved to be performed by the External Auditor

(b) The services that are prohibited by law to be performed by the External Auditor;

(c) The methods by which the Audit and Conduct Review Committee ("the Committee") may pre-approve the provision of audit services by the External Auditor and any registered public accounting firm to the Bank and its subsidiaries; and

(d) The methods by which the Committee may pre-approve the provision of audit-related, and limited specific non-audit services, to the Bank and its subsidiaries by the External Auditor and its affiliates, to ensure they are within the Bank's permitted scope of services and do not impair the independence of the External Auditor.

2. Required Pre-Approval Policy

The Committee shall pre-approve:

(a) Audit services

(i) All engagements of the External Auditor.

(ii) All engagements of any other registered public accounting firm[1] where the External Auditor does not have a presence.

(b) Other permitted services of the External Auditor.

The pre-approval for those engagements specified in section 3.2 is evidenced by the approval of this Policy by the Committee.

This pre-approval policy is effective for:

(a) The Bank.

(b) Subsidiaries of the Bank.

(c) Entities that are required to be consolidated by the Bank, including variable interest entities, temporary investments held by the Bank or its subsidiaries and any entity of which the Bank has control in fact.

The Committee will not, as a general rule, pre-approve a service more than one year prior to the time at which it is anticipated that the External Auditor will be engaged to provide the service.

[1] Pre-approval is not required for audit-related, tax and other non-audit services provided by any other registered public accounting firm

This Policy does not represent, and should not be interpreted as, a delegation of the Committee's responsibilities to management.

3. Permitted Services

3.1 Key principles

(a) The Bank's External Auditor shall be engaged primarily for audit and audit-related services only.

(b) The External Auditor should not be engaged to provide services prohibited by regulations or laws.

(c) The External Auditor shall generally not be engaged for tax or other non-audit services. Exceptions to this may only be made with the pre-approval of the Committee, to the extent that they are not prohibited services. Generally, there must be a practical or economic reason for the appointment of the External Auditor for these services. The type of services that would meet these criteria include services that are required by regulators or other government authorities to be performed by the External Auditor; or services where by virtue of the audit relationship it is more practical for the External Auditor to perform the service.

3.2 Pre-approved services

The attached Appendix 1 contains a list of audit, audit-related and specific non-audit services consistent with the key principles reflected above. These services are more restrictive than the independence requirements for auditors contained in the Sarbanes-Oxley Act and Canadian and US independence standards for auditors.

Although not all tax services are prohibited, no tax services are covered by this pre-approval policy. If Management believes that the External Auditor is best suited for a specific tax service and the service does not jeopardize the independence of the External Auditor, specific pre-approval by the Committee or its designate must be obtained.

Accordingly, services described in Appendix 1 are to be considered pre-approved by the Committee. It is the responsibility of management to ensure that a particular service is specifically covered in Appendix 1, having received such acknowledgement from the External Auditor that the services are within the list of the pre-approved services. If it is not clear to management whether a service is in the pre-approved list, then specific pre-approval must be obtained.

3.3 Specific approval requirements for services not included in the list of pre-approved services

To the extent that the proposed service to be provided by the External Auditor is not contained in the listing of pre-approved services and is not a prohibited service, the Committee must specifically pre-approve the service before the External Auditor is engaged to provide such service. The pre-approval may be either directly or through delegated authority as provided below.

(a) The Committee may designate one or more of its members ("Committee designate"), to pre-approve any audit, audit-related, or other non-audit services to be provided by the External Auditor, where the expected fees are up to $500,000 per engagement.

(b) The Committee must specifically pre-approve all audit, audit-related, and other non-audit services with expected fees in excess of $500,000 per engagement.

4. Prohibited services

Under current rules, the External Auditor is prohibited from providing certain non-audit services. The overarching principles upon which these rules are based are that the auditor cannot (1) audit his or her own work; (2) function in the role of management; or (3) serve in an advocacy role for the Bank.

A member of the External Auditor's firm or a network firm shall not make management decisions or perform management functions for the Bank or any related entity of the Bank. Activities that would constitute a management decision or function include:

(a) Authorizing, approving, executing or consummating a transaction;

(b) Having or exercising authority on behalf of the Bank;

(c) Determining which recommendations of the External Auditor should be implemented; or

(d) Reporting in a management role to those charged with governance of the Bank.

The services outlined in Appendix 2 are prohibited, as there is an overriding presumption that the results of the services would be subject to audit procedures during the audit of the consolidated financial statements. In certain rare circumstances, specific services as outlined in the auditor independence rules, may be allowable if it is clearly shown that the results of these services will not be subject to audit procedures during the audit of the consolidated financial statements. These services would be subject to the approval requirements in Section 3.3.

5. Engagement Letter

All services to be provided by the External Auditor shall be provided pursuant to an engagement letter that satisfies the following requirements.

(a) Be in writing and signed by the External Auditor or one of its authorized representatives;

(b) Set forth the particular services to be provided by the External Auditor;

(c) Set forth the period in which the services will be provided;

(d) Set forth the estimated total fees and expenses to be paid to the External Auditor for the service; and

(e) Include a confirmation by the External Auditor that such services are not within a category of services, the provision of which would impair the auditor's independence under applicable law, Canadian and U.S. generally accepted auditing

standards, and this Policy.

The Unit of the Bank that engages the External Auditor must obtain the engagement letter before commencing the engagement and retain the engagement letter on file.

6. Reporting to the Audit and Conduct Review Committee

At each scheduled meeting of the Committee, the Committee designate shall provide the Committee with a list and description of new services to be performed by the External Auditor which were not included in the list of pre-approved services (refer to Appendix 1), but which have been specifically approved by the designate under Section 3.3 above during the period since the previous meeting.

Each quarter, management and the External Auditor will jointly provide the Committee with a detailed listing of all services that have been pre-approved during the quarter in accordance with Appendix 1, as well as those approved through the specific pre-approval process described in Section 3.3 above.

7. Annual Review of Fees

Annually, the Committee will review the nature of services provided by the Bank's External Auditor through a detailed list describing the services pre-approved during the year, as well as a summary of all fees billed during the fiscal year for each of the following fee categories:

(a) Audit services;

(b) Audit-related services;

(c) Tax services; and

(d) Other non-audit services.

All out-of-pocket costs billed by the audit firm in connection with the above services are to be included with the service to which it relates.

This review will be performed prior to the audit opinion being issued at year-end by the External Auditor. At that time, the External Auditor will provide the Committee with a letter confirming its independence.

8. External Disclosure

Annually, as required by applicable laws and regulations, the Bank will disclose the previously mentioned categories of fees billed by the External Auditor, for the two most recent fiscal years.

In addition, a description of services provided and disclosure of this Policy will be made in the Bank's periodic filings as required by applicable law.

9. Effective Date and Previous Approvals

This Policy, amended March 5, 2007, is effective for all new engagements with the External Auditor entered into on or after this date, and does not rescind any approvals given prior to the effective date.

10. Annual Review

The Committee shall approve this Policy on an annual basis, or more frequently if required.

APPENDIX 1: Pre-Approved Services That Can Be Provided By The External Auditor

The Committee pre-approves the engagement of the External Auditor to perform the services described below. In addition, the Committee pre-approves the engagement of any other registered public accounting firm where the External Auditor does not have a presence to perform the **audit services** described below in Section A.

A. Audit Services

(i) Audits of the Bank's consolidated financial statements and internal control over financial reporting, as well as tax services necessary for the audit;

(ii) Audits of the financial statements, and where required, audits of the internal control over financial reporting of entities consolidated by the Bank[2] requiring a separate audit opinion, as well as tax services necessary for the audits;

(iii) Review of the Annual Report, Annual Information Form and Management Proxy Circular for the Bank;

(iv) Audits of acquired business' financial statements as required under applicable securities legislation;

(v) Reviews of the interim (quarterly) consolidated financial statements of the Bank and its subsidiaries, in accordance with CICA Handbook Section 7050, *Auditor Review of Interim Financial Statements;*

(vi) Services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies (such as the Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities (CSA)) or other documents issued in connection with securities offerings (e.g., comfort letters and consent letters) and assistance in responding to comment letters from securities regulatory bodies;

(vii) Special attest[3] services as required by regulation or statute specifically related to financial information. [Note: This does not include attest services required by tax authorities, which are considered tax services].

(viii) Consultations with the Bank's management as to the accounting or disclosure treatment of transactions or events reflected in the financial statements and/or the actual or potential impact of final or proposed rules, standards or interpretations by the securities regulatory authorities, accounting standard setting bodies (such as the Canadian Institute of Chartered Accountants (CICA), Financial Accounting Standards Board (FASB) or International Accounting Standards Board (IASB)), or other regulatory or standard setting bodies on transactions reflected in the consolidated financial statements [Note: The Bank must perform its own analysis and come to its own conclusions regarding the accounting treatment of a transaction. The External Auditor may opine, review

2 Entities consolidated by the Bank include subsidiaries, variable interest entities and temporary investments.

3 Attest services for the purpose of this policy include audit, review and specified procedures engagements.

and comment on the Bank's analysis, but may not prepare, structure or determine the accounting treatment for a transaction on the Bank's behalf].

(ix) Consultations with the Bank's management as to application of Sarbanes-Oxley and other applicable regulations relating to management's assessment of the effectiveness of internal control over financial reporting.

B. Audit-Related Services

(i) Consultation as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of new accounting standards on proposed transactions that are not reflected in the consolidated financial statements [Note: The Bank must perform its own analysis and come to its own conclusions regarding the accounting treatment of a proposed transaction. The External Auditor may opine, review and comment on the Bank's analysis, but may not prepare, structure or determine the accounting treatment for a transaction on the Bank's behalf];

(ii) Presentations or training on accounting and financial reporting, taxation, auditing, securities or other regulatory matters;

(iii) The audit of the financial statements or special attest[3] services related to the Bank's various employee benefit plans and related Trusts;

(iv) Evaluate and make recommendations on internal control matters related to management's design and installation of a system or process;

(v) Special attest[3] services as required by regulation or statute not specifically related to the financial statements or related financial information. [Note: This does not include attest services required by tax authorities, which are considered tax services].

(vi) Special attest[3] services not required by statute or regulation, but requested by clients or customers of the Bank, or parties to a specific transaction.

C. Other Non-Audit Services

(i) Foreign language translation services related to Audit services. This includes the translation of the following:

(a) The Annual report, including the consolidated financial statements and management's discussion and analysis;

(b) Annual financial statement summaries published in foreign newspapers;

(c) Interim consolidated financial statements, quarterly reports and press releases to shareholders;

(d) Financial information included in the Annual Information form, prospectuses and other offering documents;

(e) Newsletters and other press releases related to the payment of dividends; and

(f) Other documents of the Bank to enable the External Auditor to issue letters

to various securities regulators concerning the conformity of the translation of the English language version of various financial reports, including the consolidated financial statements and management's discussion and analysis, as part of the Bank's securities filings or under prospectus requirements.

(ii) Industry salary surveys

APPENDIX 2: Prohibited Services That Cannot Be Provided By The External Auditor

The following services are prohibited and cannot be provided by the External Auditor:

1. Bookkeeping or other services related to the accounting records or financial statements. Examples of prohibited bookkeeping services include:
   - maintaining or preparing accounting records;
   - preparing financial statements that are filed with the SEC/CSA; or the information that forms the basis of financial statements filed with the SEC/CSA, including statutory financial statements, if those statements form the basis of the financial statements to be filed with the SEC/CSA;
   - preparing or originating source data underlying financial statements that are filed with the SEC/CSA; and
   - preparing or determining the accounting treatment required for a proposed or existing transaction.
2. Financial information systems design and implementation or operation services. Prohibited services include:
   - directly or indirectly operating, or supervising the operation of, the Bank's information systems or managing the Bank's local area network; or
   - designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the financial statements or other financial information systems taken as a whole. Information would be "significant" if it is reasonably likely to be material to the financial statements.
3. Appraisal or valuation services for financial reporting purposes, fairness opinions, or contribution-in kind reports.
4. Actuarial services used for financial reporting purposes (e.g., the valuation of pension or other benefit plans), and pension fund administration services.
5. Internal audit outsourcing services.
6. Management functions (as detailed in Section 4 on Page 4) and human resource functions including, but not limited to, benefit plan administration and any matter related to executive or employee searches.
7. Broker-dealer, investment adviser, or investment banking services.
8. Legal services.
9. Certain expert services unrelated to the audit (providing expert opinions or other expert services to the Bank, or the Bank's legal representative(s)) in which the purpose is advocating the Bank's interests in litigation, regulatory, or administrative investigations or proceedings, including representing the Bank

before a tax court, district court or federal court of claim.[4]

10. Services relating to marketing, planning or opining in favour of the tax treatment of:

    i. A confidential transaction (which is a transaction that is offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid an advisor a fee), or

    ii. An aggressive tax position transaction (which is a transaction that was initially recommended by a registered public accounting firm and a significant purpose of which is tax avoidance).

11. Tax services for senior management and expatriate officers in a financial reporting oversight role[5] and/or their immediate family members.

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[4] While services related to advocacy are not permitted, there are circumstances when fraud and forensic engagements are permitted. These will be considered by the Committee on an engagement-by-engagement basis.

[5] The financial reporting oversight role refers to individuals that play a key role in the oversight of financial reporting at either the Bank or material units of the Bank. It includes any individual who is in a position to or does exercise influence over the contents of the financial statements, or anyone who has direct responsibility to oversee those who prepare the Bank's financial statements and related information (e.g. Management's Discussion and Analysis) that is included in any securities filing documents. Specific roles within the Bank, which have been identified as meeting the definition, include but are not limited to the President and Chief Executive Officer, Chief Financial Officer, Group Treasurer, Chief Accountant, General Counsel, SVP & Comptroller, Chief Auditor, Vice President Financial Reporting, Vice President Accounting Policy & Procedures, Finance Heads in major business lines.

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Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
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Canada

Telephone (416) 777-8500
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Internet 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 6, 2007 on the Consolidated Balance Sheets of the Bank as at October 31, 2007 and 2006, and the Consolidated Statements of Income, Changes in Shareholders' Equity, Comprehensive Income and Cash Flows for the years then ended;

(ii) our Comments by Auditors for US Readers on Canada-US Reporting Differences, dated December 6, 2007; and

(iii) our Report of Independent Registered Public Accounting Firm dated December 6, 2007 on the Bank's internal control over financial reporting as of October 31, 2007

each of which is contained in this annual report on Form 40-F of the Bank for the fiscal year ended October 31, 2007.

/s/ KPMG LLP
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
December 18, 2007

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.

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

We consent to the inclusion in this annual report on Form 40-F of The Bank of Nova Scotia (the "Bank") for the fiscal year ended October 31, 2007 of our audit report dated November 29, 2005 on the Consolidated Statements of Income, Changes in Shareholders' Equity, Comprehensive Income, and Cash Flows of the Bank for the year ended October 31, 2005.

/s/ KPMG LLP
Chartered Accountants
Licensed Public Accountants

/s/ PricewaterhouseCoopers LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
December 18, 2007

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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 6, 2007 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 change described in Note 1 (Financial Instruments) to the consolidated financial statements as at October 31, 2007 and for of the year then ended. Our report to the shareholders dated December 6, 2007 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 6, 2007

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<DOCUMENT>
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<FILENAME> o38783exv99w11.htm
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SHAREHOLDERS' AUDITORS' REPORT

To the of Shareholders of The Bank of Nova Scotia (the "Bank")

We have audited the Consolidated Statements of Income, Changes in Shareholders' Equity, Comprehensive Income, and Cash Flows for the year ended October 31, 2005. 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of operations of the Bank and its cash flows for the year ended October 31, 2005 in accordance with Canadian generally accepted accounting principles.

/s/ KPMG LLP
Chartered Accountants

/s/ PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Canada
November 29, 2005

<DOCUMENT>
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Exhibit 12

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 18, 2007

/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 18, 2007

/s/ L. Vanneste
Executive Vice-President and
Chief Financial Officer

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Exhibit 13

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, 2007 (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.

/s/ R. Waugh

December 18, 2007

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, 2007 (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 18, 2007

/s/ L. Vanneste
Luc A. Vanneste
Executive Vice-President and
Chief Financial Officer