Scotiabank Jamaica Foundation

Financial Statements
31 December 2006

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To the Members of
Scotiabank Jamaica Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Scotiabank Jamaica Foundation, set out on pages 1 to 14, which comprise the balance sheet as of 31 December 2006 and the income and expenditure account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Additional Requirements of the Jamaican Companies Act

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

Chartered Accountants

25 January 2007
Kingston, Jamaica

Scotiabank Jamaica Foundation

Income and Expenditure Account

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Income			
Contribution	2(b)	-	50,000
Investment income		46,289	43,890
		46,289	93,890
Expenditure			
Grants	8	88,841	61,790
Miscellaneous expenses		230	32
		89,071	61,822
(Deficit)/Surplus		(42,782)	32,068

Scotiabank Jamaica Foundation

Balance Sheet

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
ASSETS			
Taxation recoverable	3(ii)	20,320	18,197
Investment securities – held-to-maturity	7	264,230	235,273
Government securities purchased under resale agreements		10,919	89,521
Cash and bank		11,224	1,164
		306,693	344,155
REPRESENTED BY			
Accumulated surplus		16,382	59,164
Endowment fund	9	290,311	284,991
		306,693	344,155

Approved for issue by the Board of Directors on 25 January 2007 and signed on its behalf by:

Stacie-Ann Wright	Director	Joylene Griffiths Irving	Director

Scotiabank Jamaica Foundation

Statement of Changes in Equity

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Endowment Fund $'000	Accumulated Surplus $'000	Total $'000
Balance at 1 January 2005		284,991	27,096	312,087
Surplus		-	32,068	32,068
Balance at 31 December 2005		284,991	59,164	344,155
Contribution to Endowment Fund	6(b)	5,320	-	5,320
Deficit		-	(42,782)	(42,782)
Balance at 31 December 2006		290,311	16,382	306,693

Scotiabank Jamaica Foundation

Statement of Cash Flows

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	2006 $'000	2005 $'000
CASH RESOURCES WERE PROVIDED BY/(USED IN):		
Operating Activities		
(Deficit)/Surplus	(42,782)	32,068
Change in non-cash working capital components:		
Taxation	(2,123)	(1,375)
Interest receivable	1,984	1,283
Cash (used in)/provided by operating activities	(42,921)	31,976
Investing Activities		
Investments	(30,941)	(1,263)
Government securities purchased under resale agreements	78,602	(30,759)
Cash provided by/(used in) investing activities	47,661	(32,022)
Financing Activity		
Contribution to Endowment Fund	5,320	-
Cash provided by financing activity	5,320	-
Increase/(Decrease) in cash balance	10,060	(46)
Cash at beginning of year	1,164	1,210
CASH AT END OF THE YEAR	11,224	1,164

(expressed in Jamaican dollars unless otherwise indicated)

Scotiabank Jamaica Foundation

1. Incorporation and Main Objects

The company was incorporated in Jamaica on 13 February 1996 as a company limited by guarantee not having a share capital. The company is operated and funded by the Bank of Nova Scotia Jamaica Limited (BNSJ), which is incorporated and domiciled in Jamaica. BNSJ's ultimate holding company is The Bank of Nova Scotia, which is incorporated and domiciled in Canada.

The main objects for which the Foundation is established are:

(a) The relief of poverty, deprivation and distress among economically and socially disadvantaged persons resident in Jamaica by whatever means deemed necessary by the company.

(b) The provision of financial assistance for dependents of economically or socially disadvantaged persons resident in Jamaica.

(c) To undertake research into the special problems arising from poverty and social deprivation and into methods of alleviating them and publish the results of such.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

Standards, interpretations and amendments to published standards effective in the financial year

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following IFRSs, which are relevant to its operations. The 2005 comparative figures have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 24 (revised 2003)	Related Party Disclosures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 36 (revised 2004)	Impairment of Assets
IAS 39 (revised 2003/2004)	Financial Instruments: Recognition and Measurement

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in the financial year (continued)

The adoption of IAS 1, 8, 10, 24, 32 (all revised 2003), 36 (revised 2004) and 39 (revised 2003/2004) did not result in substantial changes to the company's accounting policies. In summary:

- IAS 1 (revised 2003) has affected disclosures.
- IAS 8, 32 (all revised 2003), 36 (revised 2004) and IAS 39 (revised 2003/2004) had no material effect on the company's policies.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All new standards, amendments and interpretations, in so far as they apply to the company, require retrospective application other than IAS 39 – the derecognition of financial assets is applied prospectively.

There was no impact on opening retained earnings at 1 January 2005 from the adoption of any of the above-mentioned standards.

Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new accounting standards, amendments and interpretations to existing standards have been issued which are not yet effective, and which the company has not early adopted. The company has assessed the relevance of all such new accounting standards, interpretations and amendments, and has determined that the following may be relevant to its operations and has concluded as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

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Notes to the Financial Statements
31 December 2006
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Revenue Recognition

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income includes coupons earned on fixed income investments and accrued discount and premium on local registered stocks and other discounted instruments.

Contributions and other income
Contributions received are recorded as income on the cash basis. Other income is recorded on the accrual basis.

(c) Deferred taxation

Deferred tax assets and liabilities are not recognised, as the company's income is exempt from income tax. See Note 3(i) for further details.

2. Significant Accounting Policies (Continued)

(d) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets
The company classifies its financial assets as held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Were the company required to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

Held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets' carrying amounts and the present value of expected future cash flows discounted at the original effective interest rate.

(e) Cash and cash equivalents
For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and bank balances and deposits.

(f) Comparative information
Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Taxation

(i) By order of the Minister of Finance the company was declared an approved charitable organisation. Its income is also exempt from income tax under Section 12(h) of the Income Tax Act.

(ii) Taxation recoverable represents withholding tax receivable on investment income.

Scotiabank Jamaica Foundation

4. Financial Risk Management

(a) Financial risk factors

The company's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Management seeks to minimise potential adverse effects on the financial performance of the company by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(i) ***Market risk***

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company is exposed to foreign exchange risk arising from currency exposures with respect to the US dollar. The balance sheet at 31 December 2006 includes aggregate net foreign assets of approximately US$86,200 (2005 – US$86,200), in respect of such transactions.

Price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The company manages its risk through the Investment Committee which carries out extensive research and monitors the price movement of securities on the local and international market.

(ii) ***Credit risk***
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company has no significant concentrations of credit risk as a significant level of investments is held in various forms of Government of Jamaica securities.

(iii) ***Liquidity risk***
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

4. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) *Cash flow and fair value interest rate risk*

The company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The average interest rates of financial instruments are as follows:

	Average rates	
	2006	**2005**
	%	**%**
Cash resources -		
Current accounts	7.0	7.0
Investment securities – held-to-maturity	14.5	14.9
Government securities purchased under resale agreements	12.7	13.6

(b) Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. However, market prices are not available for a significant number of the financial assets held by the company. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) the fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets;

(ii) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts;

4. Financial Risk Management (Continued)

(b) Fair value estimation (continued)

The table below summarises the fair value of financial instruments based on the following valuation methods and assumptions. It is presented because not all financial instruments are reflected in the financial statements at fair values.

	Carrying Value	Fair Value	Carrying Value	Fair Value
	2006 $'000	2006 $'000	2005 $'000	2005 $'000
Financial Assets				
Investment securities – held-to-maturity	257,348	277,255	226,407	245,248
Government securities purchased under resale agreements	10,919	10,919	89,521	89,521
	268,267	288,174	315,928	334,769
Interest receivable	6,882	6,882	8,866	8,866
	275,149	295,056	324,794	343,635

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies, management has made no significant judgements regarding the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made no significant estimates regarding amounts recognised in the financial statements.

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6. Related Party Transactions

A related party is one which controls or exercises significant influence over, or is controlled or significantly influenced by, the company in making financial and operating decisions or, along with the company, is subject to common control or significant influence.

(a) The company's bank account is held with The Bank of Nova Scotia Jamaica Limited.

(b) During the year, contributions of $5,000,000 (2005 - $50,000,000) and US$5,000 (2005 – Nil) were received from The Bank of Nova Scotia Jamaica Limited and Bank of Nova Scotia Toronto Limited respectively.

7. Investment Securities – held-to-maturity

	Remaining Term to Maturity					
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Carrying Value 2006 $'000	Carrying Value 2005 $'000
GOJ Bond	21,906	897	15,663	27,731	66,197	32,866
GOJ Debenture	-	-	-	-	-	426
Local Registered Stock	10,524	27,519	132,363	20,745	191,151	193,115
	32,430	28,416	148,026	48,476	257,348	226,407
Interest receivable	6,882	-	-	-	6,882	8,866
	39,312	28,416	148,026	48,476	264,230	235,273

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Notes to the Financial Statements
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(expressed in Jamaican dollars unless otherwise indicated)

8. Grants

Details of grants made during the year are as follows:

	2006 $'000	2005 $'000
Education		
NCU Scholarships	1,433	1,250
Grade Six Achievement Test (GSAT)	7,138	6,643
University of the West Indies- Scholarships	2,972	1,199
SJF Scholarship for Primary School Teachers (UWI)	920	-
Mayer Matalon/SJF Scholarship (UWI)	440	-
Holy Family Primary and Infant School	200	160
University of Technology- Scholarships	4,954	400
Mo-Bay Community College – Scholarships	1,560	1,500
Mo-Bay Community College-Lecture Theatre	2,046	76
College of Agriculture, Science & Education	-	150
Mona School of Business - Scholarships	923	823
High School Bursaries	1,000	1,000
Montpelier College - Scholarships	-	62
Caribbean School for the Deaf	413	383
Iris Gelley Primary School	2,000	3,500
Claremont Basic School	831	-
Willowdene High School	3,620	-
Brown's Town Community College	750	-
Scholars Club Launch	-	110
Award to Paediatrics	165	154
Hillel Academy Building Fund	-	2,500
Point Hill Primary Diagnostic Centre	-	2,500
Hugh Shearer Foundation	-	500
Less refund Bursary Cheques	-	(40)
	31,365	22,870
Health Care		
Cornwall Regional Hospital – Haemodialysis Unit	8,018	12,280
Jamaica Cancer Society – Mammography Unit	1,397	708
Kingston Public Hospital – Renal Unit	2,750	2,067
Spanish Town Hospital	-	1,747
Scolosis Patient	488	-
SJF Accident and Emergency Unit – Port Antonio Hospital	745	-
University Hospital of the West Indies –		
Accident & Emergency Unit- Maintenance	-	1,000
Accident & Emergency Unit- Expansion	2,794	16,366
Accident & Emergency Unit- Equipment	32,374	-
	48,566	34,168
Balance carried down	79,931	57,038

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Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

8. Grants (Continued)

	2006 $'000	2005 $'000
Balance brought forward (page 13)	79,931	57,038
Other		
Hands Across Jamaica for Righteousness	2,000	1,500
Golden Age Home	2,375	1,480
Bethel Baptist Church Foundation	-	250
Holy Trinity Parish Church	500	-
Coleen Weise	3,785	-
Youth Opportunities Unlimited	250	-
Rehab Plus – Kardel Clarke	-	22
Rotary Club of St. Andrew – Centenary Project	-	1,500
	8,910	4,752
	88,841	61,790

9. Endowment Fund

This consists of contributions received by the company. The income generated by investing these contributions is used primarily to build the Endowment Fund and make charitable donations to various organisations.

10. Grant Commitments

	2006 $'000	2005 $'000
Grants authorised and contracted for	58,130	68,924