# Strategy in action

2011 SCOTIABANK ANNUAL REPORT

Scotiabank

## 2011 FINANCIAL HIGHLIGHTS

| (fiscal year end, as at and for the years ended October 31) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Operating results ($ millions)** | | | | | |
| Net income | **5,268** | 4,339 | 3,661 | 3,259 | 4,163 |
| **Operating performance** | | | | | |
| Diluted earnings per share ($) | **4.62** | 3.91 | 3.31 | 3.05 | 4.01 |
| Return on equity (%) | **18.8** | 18.3 | 16.7 | 16.7 | 22.0 |
| Productivity ratio (%) (TEB) | **54.4** | 51.8 | 53.7 | 59.4 | 53.7 |
| **Balance sheet information ($ billions)** | | | | | |
| Total assets | **575.3** | 526.7 | 496.5 | 507.6 | 411.5 |
| **Capital measures** | | | | | |
| Tier 1 capital ratio (%) | **12.2** | 11.8 | 10.7 | 9.3 | 9.3 |
| Tangible common equity to risk-weighted assets (%) | **9.6** | 9.7 | 8.3 | 6.6 | 7.4 |
| **Common share information** | | | | | |
| Annual shareholder return (%) | **(0.4)** | 25.7 | 18.8 | (21.6) | 12.2 |
| 10-year compound annual return (%) | **13.1** | 13.1 | 14.2 | 13.1 | 16.5 |
| Market capitalization ($ millions) | **57,204** | 57,016 | 46,379 | 39, 865 | 52,612 |
| Dividends per share ($) | **2.05** | 1.96 | 1.96 | 1.92 | 1.74 |
| Dividend yield (%) | **3.7** | 3.9 | 5.4 | 4.3 | 3.4 |
| Book value per common share ($) | **26.06** | 22.68 | 20.55 | 18.94 | 17.45 |
| Price to earnings multiple | **11.3** | 14.0 | 13.6 | 13.1 | 13.2 |

## Contents


2 Message from President and CEO Rick Waugh
6 Scotiabank Executive Management team
8 Message from Chairman of the Board John T. Mayberry
9 Corporate Governance
10 Board of Directors
12 Focusing on Scotiabank's five-point strategy
22 MD&A at a glance and message from Executive Vice-President and CFO Luc Vanneste
24 Management's Discussion and Analysis
108 Management's Report on Internal Control Over Financial Reporting
108 Report of Independent Registered Public Accounting Firm
109 Consolidated Financial Statements
110 Management's responsibility for financial information
175 Shareholder information
176 Glossary
177 Basel II glossary
Corporate social responsibility (see inside back cover)


Scotiabank is a leading multinational financial services provider and Canada's most international bank. Through our team of more than 75,000 employees, Scotiabank and its affiliates offer a broad range of products and services, including personal, commercial, corporate and investment banking to over 19 million customers in more than 55 countries.

## Scotiabank's strength is evident in the solid results for 2011.

**Total net income**

$5,268 million

**Productivity ratio**

54.4%

Target: less than 58%

**Return on equity**

18.8%

Target: 16-20%

**Earnings per share growth** (diluted)

18%

Target: 7-12%

**Tier 1 capital ratio**

12.2%

Target: maintain sound capital ratios

**On the cover:** Scotiabank completed its acquisition of DundeeWealth in 2011, which builds on the Bank's commitment to become a leading asset manager and supplier of wealth management services globally. From left, DundeeWealth employees who recently joined Scotiabank's team of more than 75,000: Judy Tang, Compliance Officer; Jorge Torres, Senior Associate, Transitions/Migrations; and Kathy Sarpash, Legal Counsel.

# Scotiabank's framework for success

## Five-point strategy

1 Sustainable and profitable revenue growth p.14

2 Capital and balance sheet management p.17

3 Leadership p.17

4 Prudent risk management and appetite p.18

5 Efficiency and expense management p.20

## One Team One Goal

**Culture of collaboration**

Taking full advantage of business opportunities, synergies, best practices and our global talent pool.

## Values

**Integrity** We interact with others ethically and honourably. **Respect** We empathize and fully consider the diverse needs of others. **Commitment** We are committed to helping customers succeed. **Insight** We use a high level of knowledge to proactively respond with the right solutions. **Spirit** We enrich our work environment with teamwork, contagious enthusiasm and a "can-do" attitude.

## Core purpose

To be the best at

**helping customers**

**become financially better off**

by providing practical advice and relevant solutions.

## Business platforms

### Canadian Banking

Net income*

**$1,862**

32% of Scotiabank's total net income**

Providing a full suite of financial advice and solutions, supported by an excellent customer experience, to retail, small business and commercial markets in Canada.

### International Banking

Net income*

**$1,485**

26% of Scotiabank's total net income**

Providing a full range of personal and commercial financial services across the Caribbean and Central America, Latin America and Asia.

### Global Wealth Management

Net income*

**$1,218**

21% of Scotiabank's total net income**

Combines Scotiabank's wealth management and insurance business in Canada and internationally, along with the Global Transaction Banking group.

### Scotia Capital

Net income*

**$1,184**

21% of Scotiabank's total net income**

Scotiabank's wholesale banking arm offers a wide variety of products and services to corporate, government and institutional investor clients globally.

*2011 ($ millions)

** % of 2011 net income, excluding other

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**Rick Waugh**
President and CEO

# A success story of strength, stability and sustainable profit

## Dear Fellow Shareholders,

**Your bank earned $5.3 billion in 2011, up from $4.3 billion in 2010, continuing a long record of strong performance and sustainable profit. This also marks the 179th consecutive year of delivering dividends to you, our shareholders, and we are all very proud of this longstanding record of success.**

As you well know, there is considerable volatility and uncertainty in the world today. It has been the case for the past few years and I expect it will continue for the next few. In particular, sovereign debt concerns are weighing upon an already fragile global economy that is still recovering from the last crisis. At the same time, and in response to all that has taken place, the regulatory environment for financial institutions has intensified.

Of course, we are not immune to these forces, but Scotiabank continues to be strong, stable and successful within this challenging and fast-changing environment.

The results this year show once again that we have been well served by Scotiabank's unique business model, prudent approach and consistent execution of our five-point business strategy – sustainable and profitable revenue growth, capital and balance sheet management, leadership, prudent risk management and appetite, and efficiency and expense management.

I believe that the best strategy in the world won't work without the right people to execute it, and that our employees – my fellow Scotiabankers – are the true authors of this success. They continue, year after year, to deliver strong results, and I want to thank each and

"Our results this year show once again that we have been well served by Scotiabank's unique business model, prudent approach and consistent execution of our five-point business strategy."

every one of this team, which today is over 75,000 strong. I have great confidence that they will continue to be the drivers of Scotiabank's success for many years to come.

Achieving the kind of results that you, our shareholders, expect – and deserve – will be an extra challenge in 2012, given the uncertain global environment. However, I am confident that Scotiabank is well positioned to do so through this business cycle and well beyond.

I would like to highlight two areas in particular that give me confidence in Scotiabank's ability to continue this success.

- First, an enterprise-wide commitment to focus on customers in everything we do.
- Second, the strength of a straightforward business model that is anchored in diversification by business, geography, risk and, most importantly, people.

## Staying focused on customers

To succeed under any circumstances, but particularly in challenging times, we will stay focused on what is most important – our customers.

This focus is reflected in Scotiabank's stated core purpose, which is to be the best at helping customers become financially better off by providing practical advice and relevant solutions. Serving customers is at the heart of our business, and the Scotiabank team works hard to build stronger and deeper relationships with customers to meet their unique needs.

Where we saw an opportunity to do better was in the way we work together across all of our diverse businesses and markets to ensure that we are offering the best advice and solutions possible. We have taken major steps to foster collaboration across our multinational organization to provide seamless – and complete – solutions for customers, no matter what their financial needs are or where they are located.

We have formed Leadership Teams of cross-divisional business leaders within each market where we operate. These teams are accountable for developing and executing tactics to ensure they are working together for our customers and taking advantage of every opportunity to collaborate across the organization.

Another opportunity we identified to help foster collaboration was to use technology to enhance how Scotiabank's 75,000 employees communicate with one another. We are currently rolling out ScotiaLive, an internal employee communication and collaboration tool that allows Scotiabankers across countries and business lines to connect through one central social media platform. While it is still in its infancy, ScotiaLive is already opening up new ways to share information and interact around the globe, all with one goal: to serve customers better.

We are also using technology to enhance the customer experience. We recently launched redesigned websites, Scotiabank.com and Scotia OnLine®, which complement our award-winning mobile banking service and provide customers with comprehensive choices to do their banking how they want and when they want.

With customers all over the world using technology-based solutions more and more, technological innovations are transforming banking services – and people's lives – in ways that we never thought possible. I encourage you to read the remarkable story later in this report about a project Scotiabank helped launch in Haiti, which allowed customers to use "digital mobile wallets" to help them get back in business following the devastating earthquake in that country.

## A straightforward business model anchored in diversity

At the heart of Scotiabank's strength is our straightforward, sustainable and proven business model that benefits customers and shareholders, and has stood the test of time. It has seen us through many crises over the years, including the most recent financial crisis, during which we were recognized as one of the safest banks in the world.

The Scotiabank business model will keep us strong through the current challenges as well. It is anchored in diversification for long-term strength and shorter-term flexibility, providing us with the right business mix to balance stability and growth.

### Business diversity

We serve our customers across four business lines: Canadian Banking, International Banking, Global Wealth Management and Scotia Capital. Last year, I told you about our newest business line, Global Wealth Management, which was created to ensure we were leveraging the power of our global footprint. Moving from three business lines to four has provided us with additional diversification and stability at a crucial time.

## SCOTIABANK'S 2012 OBJECTIVES

### Financial

- Return on equity of 15-18%
- Earnings per share (diluted) of 5-10%*
- Maintain strong capital ratios

* Excluding $286 million of acquisition-related gains reported in the second quarter of 2011

### People

- High levels of employee engagement
- Enhanced diversity of workforce
- Advancement of women
- Collaboration
- Leadership development

The majority of Scotiabank's income is derived from personal and commercial banking. Client-focused wholesale banking and trading are important parts of our business but do not dominate income contribution, which is a significant difference from many of our global peers. Over time, we expect each of our four business lines to contribute approximately 20 to 30% of net income per year.

## Geographic diversity

Geographic diversity has long been a defining feature of Scotiabank's success. As Canada's most international bank, we have operations in more than 55 countries. Through our multinational approach we are well positioned in areas of strength – Canada, the Americas and Asia – and have very limited exposures in international areas of concern.

Among the Canadian banks, Scotiabank generates the largest share of net income outside Canada – primarily in high growth, emerging markets, and this gives us an excellent competitive advantage. Our objective is to generate about half of our income outside Canada over the medium term. Our ability to invest in growth regions is made possible by more than a century of experience in emerging markets and the successful integration of acquisitions, along with a disciplined approach to risk and capital management.

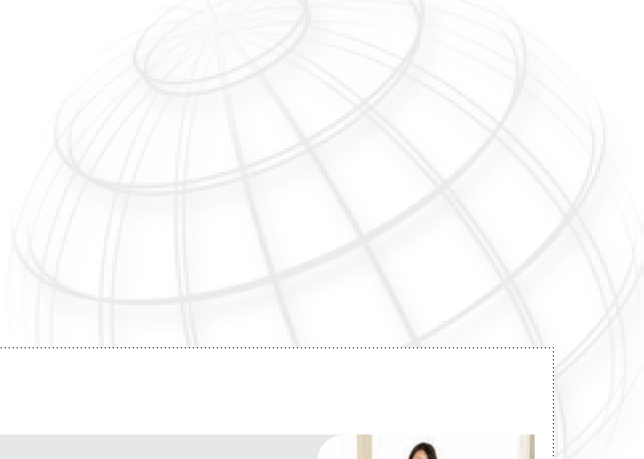
Over the past year, we made some important investments to build on our geographic diversity. In China, we announced the purchase of a 19.99% stake in the Bank of Guangzhou, located in the most important urban centre in the South China region.

In Latin America, we completed a transaction to acquire Dresdner Bank in Brazil, which increases our wholesale presence in the region, and closed the purchase of Nuevo Banco Comercial S.A., Uruguay's fourth largest private bank in loans and deposits. We also announced the purchase of a 51% stake in Banco Colpatria, Colombia's fifth-largest financial group and one of the country's biggest lenders. Set to close in December, this is a very exciting opportunity to enter the retail banking market in Colombia, capitalize on its fast-growing economy, and further strengthen our operations in South America.

## Risk diversity

Scotiabank's record demonstrates that disciplined risk management supports long-term, sustainable success. We have a hands-on approach to the development and implementation of risk principles; we take the time to ensure that risk is properly understood and embedded throughout our organization; and we use independent risk oversight. Most importantly, in Scotiabank's culture, every employee at every level of our organization is accountable for risk management. This approach positions us well to succeed through volatility and change.

One of the biggest risk management challenges in this current environment is keeping pace with the rapid changes and rising expenses associated with financial regulations in Canada and globally. We are dedicating significant resources to compliance, and we continue to invest in technology, expertise and people in response to regulatory requirements that call for more solutions to facilitate reporting and monitoring of transactions.



### Customer

- High levels of customer satisfaction and loyalty
- Deeper relationships with customers

### Operational

- Productivity ratio of less than 58%
- Strong practices in corporate governance and compliance processes
- Efficiency and expense management
- Commitment to corporate social responsibility

## Diversity of people

We celebrate differences at Scotiabank, and we benefit from the new perspectives and insights that those differences bring. The diversity of talent, background and experience of the Scotiabank team helps us provide leading, competitive service to our diverse customer base. Strengthened by their differences, Scotiabankers are united by a strong culture based on core values and a commitment to working together to get the job done.

Through their support for hundreds of local and regional charities, civic causes and non-profit organizations, our employees create a positive influence in the communities where we live and work.

And Scotiabank is committed to supporting the causes that our employees believe in. Early in 2011, we took a major step to unite all charitable, social and community efforts and employee volunteer activities under one global banner, called Scotiabank Bright Future.

Bright Future consists of six pillars – health, education, social services, sports, arts and culture, and the environment. It stands as a symbol of what can be achieved when a long history of community involvement and support comes together with a dedicated team of people committed to creating a bright future for all.

## Strong and stable future

I believe that Scotiabank has a responsibility to all of our stakeholders to be strong, stable and safe, and to continue to grow and be profitable. Our tremendous team, proven five-point strategy and diversified business model have been vital to our past success and will continue to ensure we thrive for many years to come, even through uncertain economic times.

I would like to end by expressing my deep appreciation to all of Scotiabank's customers and shareholders for your continued loyalty and trust.

"Scotiabank's tremendous team, proven strategy and diversified business model will continue to ensure we thrive for many years to come, even through uncertain economic times."

1. Rick Waugh

PRESIDENT
AND CHIEF EXECUTIVE OFFICER

Rick has led Scotiabank for the past eight years, guiding the Bank to a period of strong performance and consistent growth, and overseeing its evolution into a truly multinational financial institution.

Rick has served in the Bank's treasury, corporate, international and retail banking areas since joining Scotiabank 41 years ago as a branch employee.

2. Sarabjit (Sabi) S. Marwah

VICE-CHAIRMAN
AND CHIEF OPERATING OFFICER

Sabi is responsible for the Bank's corporate financial and administrative functions, and is actively involved in developing the Bank's strategic plans and priorities.

## GROUP HEADS

3. Sylvia D. Chrominska

GROUP HEAD,
GLOBAL HUMAN RESOURCES
AND COMMUNICATIONS

Sylvia has global responsibility for Scotiabank's human resources, corporate communications, government relations, public policy and corporate social responsibility.

4. J. Michael Durland

GROUP HEAD,
GLOBAL CAPITAL MARKETS, AND
CO-CHIEF EXECUTIVE OFFICER,
SCOTIA CAPITAL

Mike shares primary responsibility for the overall management of Scotia Capital's operations worldwide, with specific responsibility for the Global Capital Markets business.

5. Christopher J. Hodgson

GROUP HEAD,
GLOBAL WEALTH MANAGEMENT

Chris oversees all aspects of global wealth management, insurance and global transaction banking.

6. Stephen D. McDonald

GROUP HEAD,
GLOBAL CORPORATE AND
INVESTMENT BANKING,
AND CO-CHIEF EXECUTIVE
OFFICER, SCOTIA CAPITAL

Steve shares primary responsibility for the overall management of Scotia Capital's operations worldwide. He is also responsible for Scotia Capital's global corporate and investment banking activities.

7. Robert H. Pitfield

GROUP HEAD
AND CHIEF RISK OFFICER

Rob is responsible for enterprise-wide risk management, including credit, market and operational risk.

8. Brian J. Porter

GROUP HEAD,
INTERNATIONAL BANKING

Brian oversees all of the Bank's personal, small business and commercial banking operations outside Canada.

9. Anatol von Hahn

GROUP HEAD,
CANADIAN BANKING

Anatol is responsible for all retail, small business and commercial banking operations in Canada.

## CORPORATE FUNCTIONS

10. Stephen P. Hart

EXECUTIVE VICE-PRESIDENT,
CHIEF CREDIT OFFICER

Stephen oversees the global management of credit risk for the Bank, including chairing the key credit committees for Canadian Banking, International Banking and Scotia Capital.

11. Deborah M. Alexander

EXECUTIVE VICE-PRESIDENT,
GENERAL COUNSEL AND
SECRETARY

Deborah oversees the Bank's legal, compliance and corporate secretary functions.

12. Jeffrey C. Heath

EXECUTIVE VICE-PRESIDENT,
AND GROUP TREASURER

Jeff is responsible for managing Scotiabank's global treasury and investment operations, including public and private investment portfolios, medium-term and capital funding, and asset and liability management.

13. Kim B. McKenzie

EXECUTIVE VICE-PRESIDENT,
INFORMATION TECHNOLOGY
AND SOLUTIONS

Kim is responsible for providing information technology services across Scotiabank.

14. Luc A. Vanneste

EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

Luc is responsible for the Finance Department, including Investor Relations, Taxation and Strategic Sourcing.

## CANADIAN BANKING

15. Robin S. Hibberd

EXECUTIVE VICE-PRESIDENT,
RETAIL PRODUCTS AND SERVICES,
CANADIAN BANKING

Robin is responsible for the Bank's Canadian retail asset, deposit and payments businesses, as well as automotive finance.

16. Troy Wright

EXECUTIVE VICE-PRESIDENT,
RETAIL DISTRIBUTION,
CANADIAN BANKING

Troy is responsible for the Bank's Canadian retail and small business customer distribution channels.

## GLOBAL WEALTH MANAGEMENT

17. Alberta G. Cefis

EXECUTIVE VICE-PRESIDENT &
HEAD, GLOBAL TRANSACTION
BANKING

Alberta is leading the evolution of cash management, payments, business deposits, e-commerce trade services and correspondent banking, offering integrated solutions for business and financial institution customers worldwide.

18. Barbara Mason

EXECUTIVE VICE-PRESIDENT,
GLOBAL WEALTH DISTRIBUTION,
GLOBAL WEALTH MANAGEMENT

Barb is responsible for developing and implementing global distribution and operational strategies across all of Scotiabank's global wealth client-facing businesses.

## INTERNATIONAL BANKING

19. Timothy P. Hayward

EXECUTIVE VICE-PRESIDENT
AND CHIEF ADMINISTRATIVE
OFFICER, INTERNATIONAL BANKING

Tim is responsible for finance, systems, operations, and mergers and acquisitions in International Banking.

20. Wendy Hannam

EXECUTIVE VICE-PRESIDENT,
SALES AND SERVICE,
PRODUCTS AND MARKETING,
INTERNATIONAL BANKING

Wendy is responsible for international retail banking, including strategy, channel optimization, sales and service design and execution, marketing, and product and risk management.

21. Nicole Reich de Polignac

EXECUTIVE VICE-PRESIDENT
AND PRESIDENT & CEO,
GRUPO FINANCIERO SCOTIABANK

Based in Mexico, Nicole is responsible for the operations of Scotiabank's Mexican subsidiary, which employs 11,000 people across more than 600 branches.

22. Dieter W. Jentsch

EXECUTIVE VICE-PRESIDENT,
LATIN AMERICA

Dieter is responsible for Scotiabank's Latin American operations and for overseeing the Spanish-speaking countries in the Caribbean and Central America.

## SCOTIA CAPITAL

23. Anne Marie O'Donovan

EXECUTIVE VICE-PRESIDENT AND
CHIEF ADMINISTRATION OFFICER,
SCOTIA CAPITAL

Anne Marie is responsible for the global finance, operations, technology and governance functions for Scotia Capital.

For more information on Scotiabank's Executive Management team, scan the QR code (left) or visit http://scotiabank.com/ca/en/0,,468,00.html

**John T. Mayberry**
Chairman of the Board

**N. Ashleigh Everett** – Chair, Corporate Governance and Pension Committee and **John C. Kerr** – Chairman, Human Resources Committee.

**Michael J.L. Kirby** – Chairman, Audit and Conduct Review Committee and **Allan C. Shaw** – Chairman, Executive and Risk Committee.

# The strength of the Scotiabank team and their ability to execute in uncertain times

**While the financial services industry has experienced many challenges over the past few years, by staying true to a proven multi-year strategy of diversification and a straightforward business model, Scotiabank continues to deliver strong, sustainable results for shareholders, customers, employees and the communities where we do business.**

I take great pride in the fact that our leading total shareholder returns over a five- and 10-year period differentiate us from the competition. They are a testament to the focus we place on execution, prudent risk management and accountability.

This long record of success would not be possible without the strength of the Bank's great team of people and the core values that guide them. Our employees are committed to working collaboratively toward a common goal centred on the financial well-being of our customers. Scotiabank's diverse and experienced leadership team, many of whom have worked across multiple business lines and geographies, have a deep understanding of financial services in a multinational context.

There is also great diversity and a broad range of experience on Scotiabank's Board of Directors, including significant financial services and risk management expertise. Building on these capabilities, I am pleased to welcome Scotiabank's newest director, Susan Segal, to the Board. She has more than 30 years of private sector experience operating in global financial markets, primarily in Latin America and other emerging economies. Susan has been the President and CEO of the Americas Society and Council of the Americas since 2003, and she brings a valuable combination of skills and knowledge to Scotiabank.

The Board is committed to excellent corporate governance and, as part of that commitment, we participate fully in formal strategic planning sessions with the management team twice a year.

The Board is fully supportive of the Bank's five-point strategy and its prudent and diversified approach to sustainable growth, including this year's acquisitions in the key strategic markets of Uruguay, Brazil, China and Colombia.

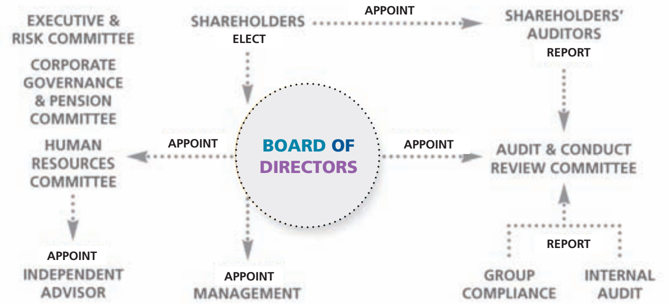
We have continued to strengthen risk management oversight with a focus on internal controls, policies and procedures. We are also engaging directly and frequently with regulators and key stakeholders on a range of issues. This open and transparent approach serves shareholders well, and I am pleased that it has led to a significant increase in disclosure in Management's Discussion and Analysis and the Proxy Circular.

On behalf of the Board, I would like to thank Rick Waugh and the Executive Management team for their continued leadership and their critical role in embracing a robust governance culture. I also want to thank the more than 75,000 Scotiabankers around the world for their ongoing dedication to their customers and communities.

Scotiabank will continue its strong commitment to good governance, accountability, integrity and leadership, which I believe positions us well for ongoing success in the years to come.

John Mayberry

BOARD OF DIRECTORS REPORTING STRUCTURE




# Corporate Governance

## Solid foundation of accountability, openness and integrity

Corporate governance refers to the oversight mechanisms and the ways in which a company is governed. The Board of Directors is elected by shareholders to supervise the management of the business and affairs of Scotiabank, with a view to enhancing long-term shareholder value.

As part of their oversight responsibilities, directors are required to exercise sound, objective and independent judgment on all matters before them. At Scotiabank, corporate governance encompasses processes and policies, how decisions are made and how Scotiabank deals with the various interests of stakeholders, including shareholders, customers, employees and the broader community.

An effective corporate governance structure and culture are critical elements in the sound functioning of a financial institution, a fact that has continually been reinforced during these economically turbulent times. A solid foundation of openness, integrity and accountability has positioned Scotiabank well in this economic climate by building and maintaining strong, enduring relationships with customers and other stakeholders in the communities in which the Bank operates. The Bank has also benefited from a strong history of comprehensive internal audit and compliance procedures, and a well-articulated risk appetite framework.

Specific responsibility for corporate governance at Scotiabank rests with the Corporate Governance and Pension Committee of the Board, which is composed entirely of independent directors. Scotiabank regularly reviews its corporate governance policies and procedures at all levels, and the Board of Directors is committed to reviewing trends and evolving best practices. The Board also implements changes to the corporate governance framework where appropriate. The Bank's practices and policies do not differ significantly from the corporate governance standards of the New York Stock Exchange for listed companies.

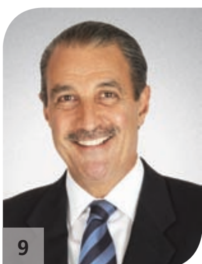
Scotiabank's Guidelines for Business Conduct, which are approved by the Board of Directors, serve as the Bank's code of ethics – a framework for ethical behaviour based on Scotiabank's mission and values and on applicable laws and regulations. All directors, officers and employees of Scotiabank must annually acknowledge adherence to the Guidelines for Business Conduct. Directors are also subject to the Directors' Addendum, which applies to all members of the Board of Directors and addresses matters such as conflicts of interest that may be of particular concern to directors.

To enhance Scotiabank's compensation practices, the Human Resources Committee has, for many years, sought the advice of an independent compensation advisor. The Executive and Risk Committee also reviews the risks associated with Scotiabank's material compensation programs in joint sessions with the Human Resources Committee. The Chairman of the Human Resources Committee makes himself available for discussions with shareholders concerning Scotiabank's approach to executive compensation.

Scotiabank is committed to Board renewal and having directors who are regional, national and international business and community leaders. Board composition and skills are assessed both individually and collectively. Among other factors, directors have been carefully selected for their financial literacy, integrity, and demonstrated sound and independent business judgment. In 2011, shareholders approved amendments to Scotiabank's bylaws to allow term limits for directors, which strike a balance among knowledge of bank affairs, renewal and additional expertise.

Our Director Independence Policy has been continually revised in response to evolving best practices and regulatory revisions, and 13 of the current 14 Bank directors are independent.

"Accountability for the Bank's actions and results is shared by all employees, and ultimately rests with the Board of Directors."



1. John T. Mayberry, C.M.

Mr. Mayberry is Chairman of the Board of the Bank. He has been a Scotiabank director since March 29, 1994.

2. Ronald A. Brenneman

Mr. Brenneman is a corporate director. He has been a Scotiabank director since March 28, 2000.

3. C.J. Chen

Mr. Chen is Counsel to Rajah & Tann LLP, Transnational Legal Solutions, a Singapore law firm. He has been a Scotiabank director since October 30, 1990.

4. David A. Dodge, O.C.

Mr. Dodge is a senior advisor to Bennett Jones LLP, and most recently served as Governor of the Bank of Canada from 2001 to 2008. He has been a Scotiabank director since April 8, 2010.

5. N. Ashleigh Everett

Ms. Everett is President, Corporate Secretary and a director of Royal Canadian Securities Limited. She has been a Scotiabank director since October 28, 1997.

6. John C. Kerr, C.M., O.B.C., LL.D.

Mr. Kerr is Chairman of Lignum Investments Ltd. He has been a Scotiabank director since March 30, 1999.

7. The Honourable Michael J.L. Kirby, O.C.

Mr. Kirby is Chairman of the Mental Health Commission of Canada and a corporate director. He has been a Scotiabank director since March 28, 2000.

8. Thomas C. O'Neill

Mr. O'Neill is a corporate director. He has been a Scotiabank director since May 26, 2008.

9. Alexis E. Rovzar de la Torre

Mr. Rovzar is a Partner of Counsel in the Latin America practice group of White & Case LLP, a global law firm. He has been a Scotiabank director since December 31, 2005.

10. Indira V. Samarasekera, O.C., Ph.D.

Dr. Samarasekera is President and Vice-Chancellor of the University of Alberta. She has been a Scotiabank director since May 26, 2008.

11. Allan C. Shaw, C.M., LL.D.

Mr. Shaw is Non-Executive Chairman of The Shaw Group Holding Limited. He has been a Scotiabank director since September 30, 1986.

12. Paul D. Sobey

Mr. Sobey is President and Chief Executive Officer of Empire Company Limited. He has been a Scotiabank director since August 31, 1999.

13. Barbara S. Thomas

Ms. Thomas is a corporate director. She has been a Scotiabank director since September 28, 2004.

14. Rick Waugh

Mr. Waugh is President and Chief Executive Officer of Scotiabank. He was appointed a Scotiabank director on March 25, 2003.

* Susan Segal has been appointed to the Board of Directors, effective December 2, 2011, and will be nominated for election at the April 3, 2012, Annual Meeting of Holders of Common Shares.

## SCOTIABANK'S CORPORATE GOVERNANCE PRACTICES

- Scotiabank developed a formal Corporate Governance Policy in 2002, which has been reviewed, enhanced and re-approved by the Board each year since being introduced.
- Since 2004, Scotiabank's Board has been led by a non-executive chairman to ensure independent leadership.
- Scotiabank adopted a Majority Voting Policy in 2005. Directors receiving more votes "withheld" than "for" in an uncontested election are required to tender their resignation.
- Scotiabank has put "say on pay" resolutions before shareholders since 2010. The second resolution in 2011 received support from nearly 93% of shareholders for management's approach to executive compensation.
- Shareholders vote for individual directors.
- Thirteen of the Bank's current 14 directors are independent.
- All four of the Board's committees meet independence guidelines in terms of composition.
- Board committees have the authority to retain independent advisors, as determined necessary by each committee.
- At each meeting of the Board and Board committees, time is specifically reserved for independent discussion without management present.
- The Board annually assesses its performance and that of its committees and individual directors.
- The Corporate Governance and Pension Committee, which is composed entirely of independent directors, is responsible for nominating potential director candidates to the Board.
- The Executive and Risk Committee and Human Resources Committee each meet separately with the Bank's Chief Risk Officer and hold joint meetings to discuss risks related to the Bank's material compensation programs.
- An orientation program is in place for all new directors. They also receive a Corporate Governance Information book, which explains the Bank's corporate governance structure.
- All directors, officers and employees of Scotiabank must acknowledge their adherence to the Scotiabank Guidelines for Business Conduct annually. The Bank has had a Whistleblower Policy in place for several years.
- Directors are expected to hold Bank common shares and/or Director Deferred Share Units with a value not less than $450,000, a level that must be reached within five years of joining the Board.

### Honorary Directors*

**E. Kendall Cork**
Hillsburgh, Ontario

**Sir Graham Day**
Hantsport, Nova Scotia

**Peter C. Godsoe,** O.C.
Toronto, Ontario

**M. Keith Goodrich**
Lake Forest, Illinois

**The Honourable Henry N.R. Jackman,** O.C.
Toronto, Ontario

**Pierre J. Jeanniot,** O.C.
Montreal, Quebec

**John J. Jodrey,** C.M., D.C.L.
Hantsport, Nova Scotia

**Laurent Lemaire**
Warwick, Quebec

**Gordon F. MacFarlane,**
O.B.C., LL.D.
Surrey, British Columbia

**Gerald J. Maier,** O.C.
Calgary, Alberta

**Malcolm H.D. McAlpine**
London, England

**The Honourable Barbara J. McDougall,**
P.C., O.C., LL.D.
Toronto, Ontario

**Ian McDougall**
Lynbrook, New York

**William S. McGregor**
Edmonton, Alberta

**David Morton**
Westmount, Quebec

**Helen A. Parker**
Sidney, British Columbia

**Elizabeth Parr-Johnston,**
C.M., Ph.D., D.Litt.
Chester Basin, Nova Scotia

**Paul J. Phoenix**
Burlington, Ontario

**Robert L. Pierce,**
LL.B, C.M., Q.C.
Calgary, Alberta

**David H. Race**
Toronto, Ontario

**Cedric E. Ritchie,** O.C.
Toronto, Ontario

**Thomas G. Rust,** C.M., LL.D.
Vancouver, British Columbia

**Arthur Scace,** LL.B., Q.C., C.M.
Toronto, Ontario

**Gerald W. Schwartz,** O.C.
Toronto, Ontario

**Isadore Sharp,** O.C.
Toronto, Ontario

*Honorary directors do not attend meetings of the Board.

### For more information,

please scan the QR code (left) or visit scotiabank.com in the About Scotiabank section for detailed reports on the following:

- Corporate Governance Policies.
- Statement of Disclosure Policy and Practices and Mandate of Disclosure Committee.
- Director Independence Standards.
- Members, committees, charters and mandates of the Board of Directors.
- Director Compensation.
- Biographies of our Executive Management team.
- Corporate Social Responsibility Report.
- Notice of Annual Meeting of Shareholders and Management Proxy Circular, which includes information on each of the directors, Board committees and our corporate governance practices.
- The webcast of the annual meeting, archived annual meetings and annual reports.
- Summary of Significant Corporate Governance Differences.
- Guidelines for Business Conduct.

# Focusing on Scotiabank's five-point strategy

## Scotiabank's strategy supports the core purpose of helping customers become financially better off

Scotiabank's five-point strategy defines where we are going and how we are going to get there. It continues to guide the Bank's success and our focus on customers, diversity, strength and stability, as we enter a more volatile economic period and a changing regulatory environment.

We have a straightforward business model driven by four business lines – Canadian Banking, International Banking, Global Wealth Management and Scotia Capital. The strategy is anchored by the diversity of the organization through our people, businesses, geographies and risk.

Scotiabank's ability to work collaboratively across business lines and geographies to deliver the best solutions for customers, communities, employees, shareholders and other stakeholders is a competitive advantage and a key part of our success.

**Photo:** Fourteen Leadership Teams drive collaboration across Scotiabank's multinational platform. Islay McGlynn, Senior Vice-President, Atlantic Region (standing, second from right), who chairs the Leadership Team in Atlantic Canada, meets with members (from left): Suzette Armoogam-Shah, Canadian Banking; John Maxwell, Roynat Inc.; Gerald Barry, Global Risk Management; Stephen Tynski, Automotive Finance; Patricia Bishop, Global Wealth Management; and Steven Boudreau, Global Wealth Management – Insurance. Joseph McGuire, Canadian Banking, and Mary Dable Arab, Customer Contact Centre, joined the meeting via video conference call.

### 1 Sustainable and profitable revenue growth

Collaboration across business lines and geographies provides the best possible solutions for our customers.

## 2 Capital and balance sheet management

Scotiabank is strong and secure, and continues to support growth through active capital, liquidity and funding management.

## 3 Leadership

Attracting the broadest possible spectrum of talent is a priority. Diversity generates more innovative thinking, better decision-making and stronger business results.

## 4 Prudent risk management and appetite

Balancing expectations for growth and performance against acceptable levels of risk in every part of the organization.

## 5 Efficiency and expense management

Operating efficiently is in Scotiabank's DNA – it is a core strength and a competitive advantage.

# 1 Sustainable and profitable revenue growth

**Concentrating on customers' needs and continually finding the best solutions for them is the key to building financial success.**

**Making the most of technology:** Scotiabank made strategic investments in its self-service channels and payments features during the past year, positioning the Bank as an industry leader and delivering best-in-class self-service banking for customers.

Contactless payment card features, such as VISA payWave™ and Interac Flash, are innovative ways to broaden the payments choices available to customers. In March, we added VISA payWave™ to select Scotiabank credit cards, including ScotiaGold Passport VISA, Scotia Momentum VISA and SCENE VISA. And for debit cards, we added Interac Flash to our SCENE ScotiaCards. Debit and credit cards equipped with these features allow customers to "tap and go" at the checkout when making small everyday purchases at participating retailers – no receipts to sign or PINs to key in.

Scotia OnLine®, Scotiabank's online banking and brokerage service, was completely redesigned and relaunched to customers. All four business lines worked together with the Information Technology & Solutions group to bring customers the best possible online banking, small business and investing experience. Using the most current web technologies, the new site provides simpler navigation and quick and easy access to common activities, such as bill payments and transfers. Direct investing customers now benefit from new and improved trading features, low commissions and enhanced research. These changes will also ensure that we continue to meet customers' growing needs in the future.

Scotiabank began rolling out new, state-of-the-art automated banking machines in September 2011 to replace older systems and enable the Bank to offer innovative solutions to Canadian customers. The new units include larger screens that will support future touch applications; the latest processor technology for fast, simple and easy service; and enhanced security features that will, for example, protect the Bank and customers against card skimming devices.

Mobile Banking was first launched in 2010, offering customers innovative, convenient and secure ways to bank at any time from anywhere on any web-enabled device. In 2011, we became the first bank to launch a mobile banking application for smartphone users in 20 countries across the Caribbean. Complementing this international launch was the release of a suite of apps available to Canadian iPhone, BlackBerry and Android users. Scotiabank's mobile banking service in Canada was recognized with the 2011 Celent Model Bank Award, acknowledging innovative and effective use of technology in banking.

**Reorganizing the business:** Scotiabank created a fourth business line – Global Wealth Management – in late 2010 as part of an ongoing diversification and growth strategy. This year, extensive collaboration brought together a broad mix of wealth-focused activities from different areas of the Bank – including wealth management, insurance and global transaction banking – onto a single platform where growth opportunities could be maximized. Finance groups and other support functions worked to shape the new Global Wealth Management, largely from existing resources. The integration of DundeeWealth also reflects this effort, with core functions of the former asset management company forming part of a larger shared services platform that serves the entire Global Wealth Management team. The acquisition has deepened capabilities, broadened the distribution network and moved us from 10th to fourth largest among mutual fund providers in Canada, and second among Canada's leading banks.

**Collaboration in action:** Scotiabank has implemented a unique collaboration and accountability model that is changing the way we work. The model is about combining diverse knowledge, resources and perspectives from across the Bank's international network to provide customers with seamless solutions, while maximizing opportunities – and competitiveness. Fourteen Leadership Teams play a critical role in creating this cohesive customer experience by bringing together business line leaders within each geographic market around the world. The teams are accountable for developing and executing strategic plans focused on cross-business line opportunities, customer satisfaction, profitability and competitiveness. Some great success stories and best practices have already begun to emerge from this new process.

**Photo:** Scotiabank recently introduced innovative payment features for customers in Canada. The launch of VISA payWave™ and Interac Flash for select credit and debit cards allows customers to "tap and go" when making everyday purchases. Scotiabank customer Cathy Cristello buys her morning coffee with her son Samuel using VISA payWave™ at Second Cup, which recently implemented the technology across its Canadian locations. In the background: Cathy's mother, Nancy Virdo, Customer Relations Representative at Scotiabank's King and University branch in Toronto, Ontario, with grandson Gabriel.

Providing customers with relevant advice and solutions is critical to growing revenues.

Developing leaders with diverse,
global perspectives
ensures continued
business success.

"Scotiabank has been strengthening its balance sheet and capital base to take advantage of growth opportunities, enhance shareholder returns and meet changing regulatory requirements."

## 2 Capital and balance sheet management

**Scotiabank is ensuring its long-term stability and growth through active capital, liquidity and funding management.**

**Growing deposits:** The Bank began the second successful year of its Let the Saving Begin program to encourage deposit growth and help customers get on track with their saving, investing and borrowing. Scotiabank also solidified its reputation as a leader in cash back loyalty this year by providing customers with more and better options for making everyday purchases. We launched the Scotia Moneyback Account, which offers customers 1% cash back rewards on debit purchases – a Canadian Banking first. The project was a collaborative effort between Day-to-Day Banking, ScotiaCard product groups, Information Technology & Solutions, Banking Operations and Marketing, to name a few. Building on the success of the Scotia Momentum VISA, which gives customers up to 2% cash back on their everyday purchases, we launched both the new Scotia Momentum VISA Infinite Card that offers up to 4% cash back on gas and groceries, and the Scotia Momentum No-Fee VISA, completing our suite of cash back products.

**Developing strong governance practices:** The challenging fiscal environment in 2011 has led to an increasingly rigorous regulatory landscape. To meet changing regulatory requirements, Scotiabank has been strengthening its overall approach to capital management by working with key subsidiaries in enhancing their capital management practices. The Capital Management team collaborated with the Strategic Review group, business line Finance teams and subsidiaries around the world to share knowledge about the Bank's capital management framework, and help implement best practices while meeting the unique needs of each market.

## 3 Leadership

**Scotiabank is focused on developing its global talent pool for long-term individual and business success.**

**Developing talent:** Scotiabank's continued success requires highly capable leaders to execute strategy and drive superior business results today and in the future. With operations in more than 55 countries, our international platform uniquely positions us to identify and develop talent around the globe. It is this strength that makes leadership a competitive advantage for Scotiabank.

The Bank has a robust structure in place to identify key people from across our multinational footprint with the ability, aspiration and engagement to take on more senior roles within the organization. The Annual Leadership Resource Planning process is one of its key components, and in 2011 more than 200 Leadership Roundtables were held across the Bank to evaluate leadership candidates.

To help identify and assess leadership capability in employees, the Bank uses a Leader Profile outlining the behaviours, values and experiences that describe the Scotiabank leader and that are consistent with the Bank's culture. In 2011, the Bank updated and strengthened the Leader Profile to ensure that it reflects the demands of the current and future global financial services marketplace.

Scotiabank is committed to developing employees at all levels of the organization, including the most senior roles, and it offers a variety of innovative development tools, resources and experiences. Employees have opportunities to develop through training, coaching, job assignments, experiences and mentoring that are appropriate for their role, career stage and organizational level.

One tool available to employees at the Director level and above is the Talent Profile, which is an online résumé that showcases their career history, leadership competencies, experiences and aspirations.

Continued on next page.

**Photo:** Scotiabank's multinational platform uniquely positions us to develop leaders with diverse, global perspectives. Scotiabank employees from Canada and Mexico recently made the move to the Bank's Pacific Regional Office in Hong Kong, to take on more challenging roles and broaden their skills. From left: Cynthia Gao, Manager, Corporate Development; Fedza Kusturica, Vice-President, Financial Institutions, South & East Asia; Philip Seymour, Vice-President, Mergers & Acquisitions, Asia; Naomi Shaw, Human Resources Head, Asia Pacific & Middle East; and Alberto Jaramillo, Vice-President & Regional Treasurer.

"Scotia InfoAlerts help Scotiabank reduce risks associated with fraud and allow customers to take a more hands-on approach to monitoring their accounts."

Continued from previous page.

A short-term assignment with the Executive Project Office is another innovative development experience available to a select group of emerging leaders each year. This small group of high-potential employees from across the Bank works together to assist the executive team in shaping the Bank's direction by carrying out in-depth research and analysis on key strategic issues.

Responsibility for the Bank's leadership strategy reaches the highest levels of the organization. The Board of Directors oversees the leadership strategy with the support of the Human Resources Committee (HRC). A Bank officer at the Senior Vice President level has primary accountability for managing it, which involves guiding the process of building of the Bank's leadership capability to support sustained high business performance.

The HRC regularly reviews the effectiveness of the leadership strategy as it applies to executive positions as well as the performance, qualifications, experiences and capabilities of all executive officers. The committee also recommends senior executive appointments for Board approval, and regularly assesses candidates for senior roles, including the President and CEO. To ensure a balanced perspective, this assessment is done independently through direct interaction with the President and CEO; the Group Head, Global Human Resources and Communication; as well as the Vice Chairman and Chief Operating Officer.

The Board also maintains a contingency plan for an unexpected vacancy in the President and Chief Executive Officer position to mitigate business risk and ensure continued prudent operation of the Bank.

**Broadening our leaders:** Scotiabank offers a rich variety of development opportunities for employees at all levels. One of the most interesting experiences available to emerging leaders is a short-term assignment with the Executive Project Office (EPO). Each year, a new group of high-potential employees from diverse areas of the Bank come together. Over several months, they help the Executive team shape the Bank's strategic direction by carrying out in-depth research and analysis on strategic issues. This involves pulling together expertise and perspectives from across Scotiabank, which gives EPO participants a broader, deeper understanding of the Bank. Participants also benefit from individual and team coaching and mentoring opportunities.

## 4 Prudent risk management and appetite

**Scotiabank's risk management culture is based on the expertise and good judgment of employees around the world. The risks we take are measured and balanced against expected returns.**

**Strengthening our practices to support the business:** Scotiabank has dedicated risk management teams to support all four business lines, made up of experts in fields such as energy and power, mining, hotel, auto, real estate, shipping, insurance and capital markets. The teams work together with several groups to ensure the Bank, and customers, know and understand the unique risks in the industries where we do business. In 2011, we expanded or modified these dedicated teams to meet the changing needs of the business and strengthen the Bank's risk management capabilities.

**Focus on fraud prevention:** Several teams across Scotiabank worked together to launch Scotia InfoAlerts, a new Canada-wide service designed to help the Bank reduce risks associated with fraud and allow customers to take a more hands-on approach to monitoring their accounts. The service enables customers to manage their accounts by receiving a wide variety of alerts, through text messages and/or e-mail, to help them stay in control of their money. Security alerts also offer an added layer of protection.

**Building risk technologies:** This year, Scotiabank launched the FICO® TRIAD® adaptive control system and Debt Manager® collections management system in Chile and the Caribbean, building on previous deployments in Mexico and Peru. The industry-leading global account management solution optimizes profitability and increases diligence in credit management of the retail lending portfolio at the customer level. Plans are underway to implement TRIAD® with Debt Manager in other countries across the region, enhancing information reporting and leading to a greater sharing of best practices.

**Photo:** A dedicated risk management team was critical in a recent deal, where Scotia Capital worked with valued client Hunt Consolidated Inc., to fund a transmission line that brings energy through wind turbines to nearby cities in Texas. At the Hunt Consolidated Inc. headquarters in Dallas, Texas, Scotia Capital employees who were instrumental in the project met with the client. From left: R. Donovan Crandall, Managing Director & Team Leader, Scotiabank; Hunter Hunt, President and CEO, Hunt Consolidated Energy, Inc.; Rose Porter, Vice-President, Global Risk Management, Corporate Credit, Special Industries, Scotiabank; Alok Garg, Director, Power and Utilities, Scotiabank; Kristin Dohn, Manager, Project Finance, Hunt Consolidated Inc.; and, W. Kirk Baker, Senior Vice-President and Chief Legal Officer, Hunt Consolidated Inc., and Chairman & President, Electric Infrastructure Alliance of America LLC.

Building a strong culture
of risk management
across the business achieves
the best results.

## 5 Efficiency and expense management

**Investing wisely in people and technologies, and recognizing operational risks across all four business lines, helps the Bank operate efficiently.**

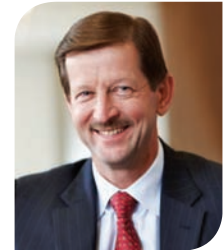
**Enhancing efficiency through new learning approaches:** At Scotiabank, we provide learning and development opportunities for all employees worldwide, equipping them with skills and knowledge that will enable them to serve customers better, and meet their personal career development goals.

This year, we provided employees with access to thousands of SkillSoft e-learning courses – valuable training which is also highly cost-effective. SkillSoft offers high-quality, targeted online learning that fits our employees' individual needs and busy schedules. The courses have been popular in Mexico, where employees have enthusiastically embraced SkillSoft e-learning and are the Bank's biggest per capita users. Globally, the new program has led to significant savings and greater consistency with respect to learning content.

Creating synergies: Employees from Canadian and international contact centres and Information Technology & Solutions collaborated and shared best practices to create new customer service teams in the Mexico and Dominican Republic contact centres. To get the project off the ground, they explored synergies to ensure consistent use of technology and service standards, with the goal of providing a seamless customer experience. This successful partnership has helped the customer contact centres deliver on their key strategic priorities.

**Photo:** To provide employees with access to thousands of e-learning courses, Scotiabank partnered with SkillSoft, which offers valuable, cost-effective training. The courses have been popular in Mexico, where employees are the Bank's biggest per capita users. From left: César Flores, Elizabeth Nava, Xavier García Campos, Erika Martínez and Cintya Acevedo from Scotiabank Mexico.

# MD&A at a glance



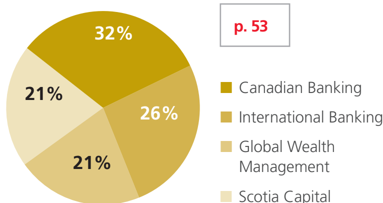
Luc Vanneste
Executive Vice-President and
Chief Financial Officer

## Financial highlights

### Four diversified growth platforms

% of 2011 net income, excluding other

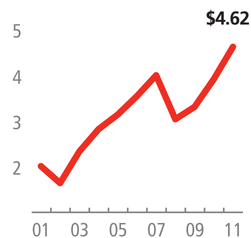
p. 53




### Earnings per share

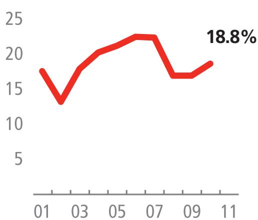
diluted

p. 27



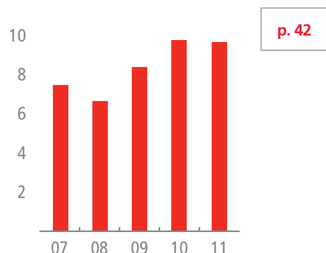

### Return on equity

p. 27




### Tangible common equity ratio

p. 42




## Fellow Shareholders,

I am pleased to present Management's Discussion and Analysis (MD&A) for the 2011 fiscal year. The Bank delivered another strong performance in a year of increasing economic and market volatility, with record net income of $5.3 billion. Earnings per share were $4.62, up 18% from the previous year, and return on equity was a strong 18.8%. We met or exceeded all of our financial objectives this year and continued our consistent dividend payments to shareholders, with $2.05 per share for the year.

All four business lines contributed to the results reflecting the success of our diversified business model. We saw particular growth in International Banking and Global Wealth Management, which benefited from strategic acquisitions and expansion in existing businesses. Canadian Banking remains our cornerstone business and delivered solid consistent earnings. Scotia Capital faced challenges in the latter half of the year because of market volatility, but its diversified businesses still allowed it to produce a solid result, albeit lower than the prior year's high levels.

We delivered record revenues of $17.3 billion, up 11% year over year from strong net interest growth and record other income. Our ongoing investment in business expansion initiatives, organically and through acquisitions, has delivered these record revenues. As we continue to invest in a number of initiatives – through people, premises and technology – our expenses have increased year over year; however, our productivity ratio continues to be industry-leading at 54.4%. This reflects a deeply entrenched expense control culture. Credit performance across the portfolios continued to be strong, with a reduction in provisions for credit losses this year.

Scotiabank is committed to maintaining a solid capital base to support the risks associated with its diversified businesses. The Tier 1 capital ratio at 12.2% and the total capital ratio at 13.9% remained well above the regulatory minimum and are strong by international standards. With the Bank's proven record of strong internal capital generation and its lower risk business model, it is well positioned to meet the Basel III capital requirements.

Scotiabank was an active acquirer in 2011, as we continued to take advantage of opportunities available in global markets. In 2011, we expanded wealth management through the purchase of the remaining shares in DundeeWealth in Canada. We also continued to build our presence in key strategic markets around the world, including Uruguay, Brazil, as well as China, where we announced the acquisition of 19.99% of Bank of Guangzhou, and Colombia, where we are acquiring 51% of Banco Colpatria. Both deals are expected to close in December and will be accretive to earnings in 2012.

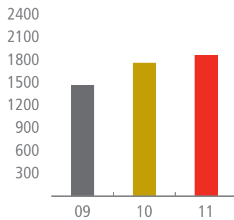
The Bank's straightforward business model aims to deliver earnings that are evenly split between Canadian and international operations, with 70% generated through retail operations and 30% from wholesale banking. The success of the Bank's long-term strategy is evident in current and past results, and the consistency of growth and returns to our shareholders. At 13.1%, Scotiabank's annualized 10-year total shareholder return is the highest among the large Canadian banks.

I trust that you will find this MD&A helpful in understanding the Bank's performance in 2011 and the outlook for 2012.

For more information on Scotiabank's Investor Relations, scan the QR code (right) or visit scotiabank.com/investorrelations

## Net income by business segments*

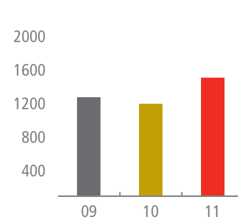
### Canadian Banking




* $ millions

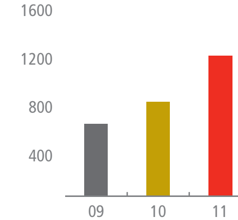
p. 53

### International Banking



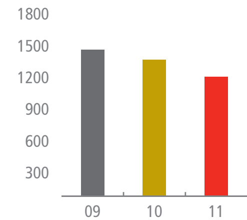

p. 53

### Global Wealth Management




p. 53

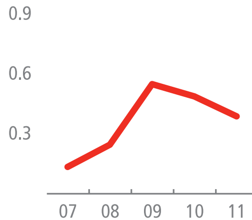
### Scotia Capital




p. 53

### Credit losses

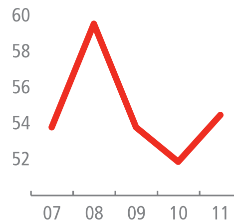
specific provisions as a % of average loans and acceptances




p. 36

### Productivity ratio

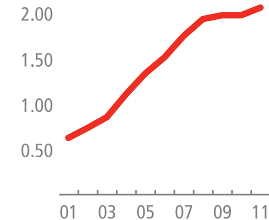
non-interest expenses as a % of revenue (TEB)




p. 32

### Dividend growth

dollars per share




p. 42

### Senior debt credit ratings

| Agency | Rating | Outlook |
|---|---|---|
| S&P | AA- | Stable |
| Moody's | Aa1 | Stable |
| Fitch | AA- | Stable |
| DBRS | AA | Stable |

### Total shareholder return (TSR)

as at October 31, 2011

| Time Period | TSR |
|---|---|
| 5 year | 5.4% |
| 10 year | 13.1% |
| 15 year | 15.0% |
| 20 year | 16.6% |

### Other information

as at October 31, 2011

| | |
|---|---|
| Total assets | $575.3 billion |
| Loans and acceptances | $306.9 billion |
| Deposits | $396.4 billion |
| Branches and offices | 2,926 |
| ABMs | 6,260 |

# Management's Discussion and Analysis

## Table of Contents

25 Forward-looking statements
26 Financial highlights

**Overview**
27 Financial results
27 Outlook
28 Shareholder returns
29 Impact of foreign currency translation
29 Impact of acquisitions
29 Non-GAAP measures

**Group Financial Performance**
30 Total revenue
30 Net interest income
31 Other income
33 Non-interest expenses
34 Provision for income taxes
34 Credit quality
38 Fourth quarter review
40 Summary of quarterly results

**Group Financial Condition**
41 Balance sheet
42 Capital management
47 Changing regulatory landscape
47 Off-balance sheet arrangements
50 Financial instruments
51 Selected credit instruments

**Business Lines**
53 Overview
54 Canadian Banking
56 International Banking
58 Global Wealth Management
60 Scotia Capital
62 Other

**Risk Management**
63 Overview
66 Credit risk
70 Market risk
73 Liquidity risk
75 Operational risk
76 Reputational risk
77 Environmental risk

**Controls and Accounting Policies**
78 Controls and procedures
78 Critical accounting estimates
82 Changes in accounting policies
83 Transition to International Financial Reporting Standards (IFRS)
90 Related party transactions

**Supplementary Data**
91 Geographic information
93 Credit risk
98 Revenues and expenses
98 Other information
100 Eleven-year statistical review

# FORWARD-LOOKING STATEMENTS

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

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

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

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

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

December 2, 2011

**T1** Financial Highlights

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

(1) Non-GAAP measure. Refer to the non-GAAP measures on page 29.
(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.
(3) Prior period amounts have been restated to reflect the updated definition of assets under management. Refer to page 29 for a discussion on non-GAAP measures.
(4) Effective November 1, 2007, regulatory capital, risk-weighted assets and capital ratios are determined in accordance with Basel II rules. Comparative amounts for 2007 were determined in accordance with Basel I rules.
(5) Amounts have been restated to reflect the revised definition of tangible common equity to risk-weighted assets. Refer to page 29 for a discussion of non-GAAP measures.
(6) Net impaired loans are impaired loans less the specific allowance for credit losses.
(7) Based on the average of the high and low common share price for the year.

# MD&A Overview

## Financial Results

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

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

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

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

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

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

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

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

## Outlook

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

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

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

### CHANGE IN ACCOUNTING STANDARDS

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

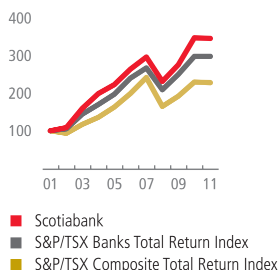
The remaining $26 million gain related to accounting for another acquisition, which was purchased at a price lower than fair value. The new standards require negative goodwill to be recognized in income without first reducing non-monetary assets, resulting in a higher gain in income under the new standards.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

**C1** Earnings per share (diluted)

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

**C3** Return on equity

**C4** Return to common shareholders
*Share price appreciation plus dividends reinvested, 2001 = 100*




■ Scotiabank
■ S&P/TSX Banks Total Return Index
■ S&P/TSX Composite Total Return Index

## Shareholder Returns

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

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

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

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

**T2** Shareholder returns

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

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

**T3** Impact of foreign currency translation

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

**T4** Impact of acquisitions(1)

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

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

## Impact of foreign currency translation

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

## Impact of acquisitions

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

## Non-GAAP measures

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

### Taxable equivalent basis

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

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

### Diluted cash earnings per share

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

### Productivity Ratio (TEB)

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

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

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

### Operating leverage

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

### Return on equity

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

### Economic equity and Return on economic equity

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

### Tangible common equity to risk-weighted assets

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

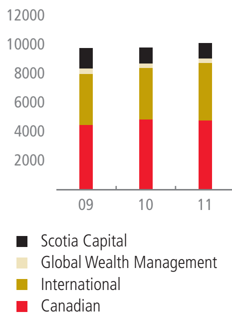
### Assets Under Administration (AUA)

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

### Assets Under Management (AUM)

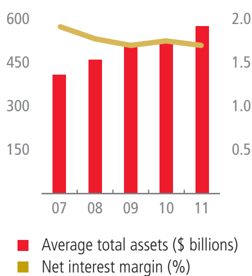
AUM are assets managed by the Bank on a discretionary basis and in respect of which the Bank earns investment management fees. AUM are beneficially owned by clients and are therefore not reported on the Bank's balance sheet. Some AUM are also administered assets and are included in assets under administration.

**C5** Net interest income by business line[(1)]
*Taxable equivalent basis, $ millions*

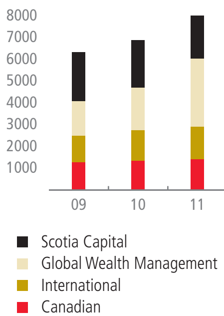



(1) Excludes Other segment

**C6** Average total assets and net interest margin
*Taxable equivalent basis, $ millions*

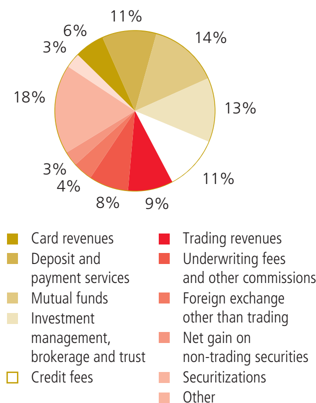



**C7** Other income by business line[(1)]
*Taxable equivalent basis, $ millions*




(1) Excludes Other segment

**C8** Many sources of other income




# GROUP FINANCIAL PERFORMANCE

## Total revenue

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

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

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

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

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

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

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

### Net interest income

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

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

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

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

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

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

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

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

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

Global Wealth Management's margin compressed slightly.

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

## Outlook

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

## Other income

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

**T5** Net interest income and margin[1]

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

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

**T6** Average balance sheet[1] and interest margin

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

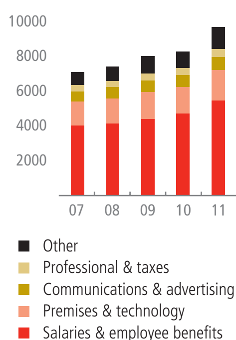
(1) Average of daily balances.
(2) Refer to the non-GAAP measures on page 29.
(3) Includes non-controlling interests of $0.6 billion in 2010 and 2011.

**T7** Trading revenue

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

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

**C9** Expenses well controlled
*$ millions*




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

(Source: published financial data)

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

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

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

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

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

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

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

**T8** Other income

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

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

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

Outlook

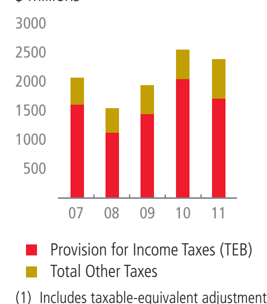
The ongoing challenging global market conditions will temper growth in some other income categories. However, the Bank expects increases in most other income categories in 2012, from the full year impact of acquisitions, and higher customer activity.

## Non-interest expenses

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

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

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




(1) Includes taxable-equivalent adjustment

**T9** Non-interest expenses and productivity

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

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

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

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

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

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

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

Outlook

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

## Provision for income taxes

The provision for income taxes was $1,410 million in 2011, a decrease from $1,745 million last year. The Bank's overall effective tax rate for the year was 21.1%, down from 28.7% last year. This decrease was due primarily to a reduction in the statutory tax rate in Canada, higher tax-exempt income, lower taxes in foreign subsidiaries and reduced future tax adjustments. In addition, the current year's rate benefitted from the non-taxable acquisition-related gains of $286 million. These items were partially offset by a valuation allowance recorded against a future tax asset related to a loss on disposal of subsidiary operations in a prior year.

Outlook

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

## Credit quality

### Provision for credit losses

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

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

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

**T10** Impaired loans by business line

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

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

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

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

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

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

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

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

**T13** Net charge-offs[1] as a percentage of average loans and acceptances

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

(1) Write-offs net of recoveries.
(2) 2007 and 2008 ratios for Canadian Banking and International Banking have not been restated for changes in business line structure effective 2011.
(3) Corporate Banking only.

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

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

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

## Allowance for credit losses

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

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

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

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

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

## Impaired loans

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

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

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

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

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

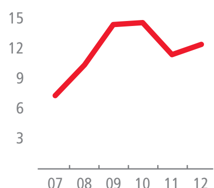
Net impaired loans, after deducting the specific allowance for credit losses, were $2,623 million as at October 31, 2011, a decrease of $421 million from a year ago.

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

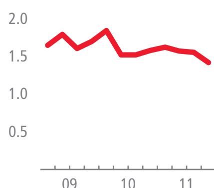
**C12** Credit losses
*specific provisions as a % of average loans & acceptances*

**C13** Net impaired loan ratio
*as a % of loans & acceptances, as at October 31*

**C14** Gross impaired loans
*as a % of equity & allowances for credit losses*




**C15** Low delinquency in Canadian retail portfolio
*delinquent loans as a % of total loans*




## Portfolio review

### Canadian Banking

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

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

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

### International Banking

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

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

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

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

### Global Wealth Management

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

### Scotia Capital

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

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

### Risk diversification

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

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

Sovereign credit risk

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

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

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

As at October 31, 2011 ($ millions)

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

(1) Corporate includes financial institutions that are not banks.
(2) Risk exposures exclude trading securities.
(3) The majority of the funded credit exposure is in the form of funded loans which are recorded on an accrual basis. Funded credit exposures related to derivatives, repurchase agreements, and securities lending and borrowing transactions are reported net of collateral.

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

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

Total unfunded commitments were $375 million as follows:

As at October 31, 2011 ($ millions)

| Country | Bank | Corporate | Unfunded Commitments(1) |
|---|---|---|---|
| Greece | $ – | $ 76 | **$ 76** |
| Ireland | – | 43 | **43** |
| Italy | 18 | 33 | **51** |
| Portugal | 2 | – | **2** |
| Spain | 53 | 150 | **203** |
| **Total** | **$73** | **$302** | **$375** |

(1) There are no unfunded commitments to sovereigns.

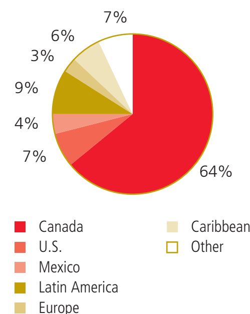
The Bank's net trading securities exposure is not significant. The Bank's exposure for trading securities is on a fair value basis. As at October 31, 2011 the Bank was net long sovereign securities of Italy ($50 million), Spain ($31 million); and the Bank had no sovereign securities holdings of Greece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

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

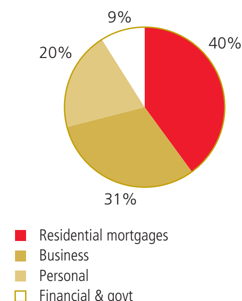
Other European Exposures

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

**C16** Well diversified in Canada and internationally…
*loans and acceptances, September 2011*




**C17** … and in household and business lending
*loans & acceptances*



As at October 31, 2011 ($ millions)

| Country | Sovereign | Bank | Corporate | Total[1] |
|---|---|---|---|---|
| United Kingdom[2] | $1,202 | $2,483 | $2,845 | **$ 6,530** |
| Germany | 417 | 1,161 | 1,231 | **2,809** |
| France | 248 | 690 | 570 | **1,508** |
| Netherlands | 179 | 741 | 458 | **1,378** |
| Switzerland | – | 626 | 703 | **1,329** |
| Other[3] | 186 | 342 | 1,097 | **1,625** |
| Total | **$2,232** | **$6,043** | **$6,904** | **$15,179** |

(1) Risk exposures exclude trading securities.
(2) Sovereign exposure includes $844 million in short-term deposits with the Bank of England. Bank exposure includes $898 million in short-term deposits with banks.
(3) Remaining European exposure is distributed across 15 countries, each of which has a net exposure below $1 billion as at October 31, 2011.

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

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

### Risk mitigation

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

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

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

### Outlook

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

## Fourth quarter review

### Q4 2011 vs Q4 2010

#### Net income

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

#### Total revenue

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

#### Net interest income

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

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

#### Other income

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

#### Provision for credit losses

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

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

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

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

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

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

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

#### Non-interest expenses and productivity

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

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

#### Provision for income taxes

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

### Q4 2011 vs Q3 2011

#### Net income

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

#### Total revenue

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

#### Net interest income

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

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

#### Other income

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

#### Provision for credit losses

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

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

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

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

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

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

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

#### Non-interest expenses and productivity

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

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

Provision for income taxes

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

## Summary of Quarterly Results

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

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

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

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

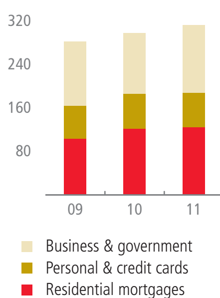
Loan losses trended lower during the first three quarters of the year before moving higher in the fourth quarter. This year's performance was an improvement from the prior year, reflecting signs of recovery in the first half of the year, followed by challenges in some markets in the latter half.

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

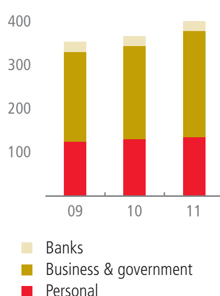
The effective tax rate ranged between 24% and 18% reflecting different levels of income earned in lower tax jurisdictions and changes in the valuation of future tax assets.

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

**C18** Loan portfolio
*loans & acceptances, $ billions, as at October 31*




**C19** Deposits
*$ billions, as at October 31*




## Balance sheet

### Assets

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

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

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

#### Securities

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

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

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

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

As at October 31, 2011, the unrealized gain on available-for-sale securities, after the impact of qualifying hedges is taken into account, was $1,028 million, a decrease of $161 million from October 31, 2010. The change was due mainly to decreases in the values of foreign government debt, corporate bonds and equities as a result of weaker capital markets.

#### Loans

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

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

In retail lending, residential mortgages increased $3 billion.

### Liabilities

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

**T14** Condensed balance sheet

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

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

Deposits

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

Other Liabilities

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

### Shareholders' equity

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

### Outlook

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

## Capital management

### Overview

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

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

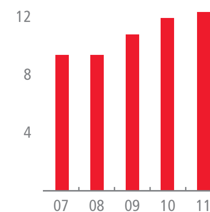
### Governance and oversight

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

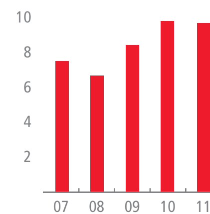
### Risk appetite

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

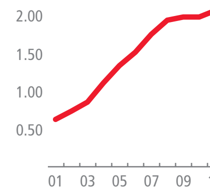
**C20** Tier 1 capital
*%, as at October 31*



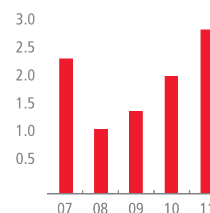

**C21** Tangible common equity
*%, as at October 31*



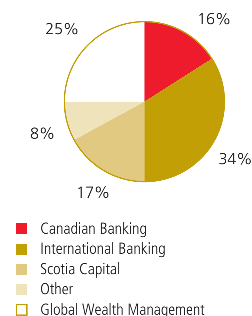

**C22** Dividend growth
*dollars per share*




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




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



### Managing and monitoring capital

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

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

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

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

### Capital generation

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

### Capital utilization

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

### Regulatory capital

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

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

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

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

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

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

Tier 1 capital

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

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

**T15** Regulatory capital[(1)]

| As at October 31 ($ millions) | Basel II | | | | Basel I |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| Tier 1 capital | | | | | |
| Common shareholders' equity[(2)] | **$ 27,932** | $ 23,199 | $ 20,945 | $ 20,197 | $ 16,477 |
| Innovative capital instruments | **2,900** | 3,400 | 3,400 | 2,750 | 2,750 |
| Non-cumulative preferred shares | **4,384** | 3,975 | 3,710 | 2,860 | 1,635 |
| Non-controlling interest in subsidiaries | **640** | 579 | 554 | 502 | 497 |
| Less: Goodwill | **(4,377)** | (3,050) | (2,908) | (2,273) | (1,134) |
| Other capital items[(3)] | **(2,990)** | (2,769) | (2,051) | (773) | – |
| | **28,489** | 25,334 | 23,650 | 23,263 | 20,225 |
| Tier 2 capital | | | | | |
| Subordinated debentures[(4)] | **5,723** | 5,790 | 5,833 | 4,227 | 1,452 |
| Trust subordinated notes | **1,000** | 1,000 | 1,000 | 1,000 | 1,000 |
| Eligible amounts of general allowance[(5)] | **353** | 574 | 570 | 534 | 1,298 |
| Net unrealized equity gains[(6)] | **152** | 176 | 6 | – | 298 |
| | **7,228** | 7,540 | 7,409 | 5,761 | 4,048 |
| Less: other capital deductions[(7)] | **(3,184)** | (3,275) | (2,471) | (1,177) | (1,292) |
| Total capital | **$ 32,533** | $ 29,599 | $ 28,588 | $ 27,847 | $ 22,981 |
| Risk-weighted assets[(1)]($ billions) | | | | | |
| Credit risk | **200.8** | 180.5 | 187.8 | 214.5 | 208.3 |
| Market risk | **5.9** | 10.5 | 11.4 | 15.5 | 10.0 |
| Operational risk | **27.3** | 24.0 | 22.4 | 20.6 | – |
| Total risk-weighted assets | **$ 234.0** | $ 215.0 | $ 221.6 | $ 250.6 | $ 218.3 |
| Capital ratios[(1)] | | | | | |
| Tier 1 capital ratio | **12.2%** | 11.8% | 10.7% | 9.3% | 9.3% |
| Total capital ratio | **13.9%** | 13.8% | 12.9% | 11.1% | 10.5% |
| Assets-to-capital multiple | **16.6** | 17.0 | 16.6 | 18.0 | 18.2 |

(1) Effective November 1, 2007, regulatory capital, risk weighted assets and capital ratios are determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.
(2) Effective November 1, 2007, balance excludes unrealized gains and losses on available-for-sale securities and cash flow hedges.
(3) Comprised of net after-tax losses on available-for-sale equity securities, 50/50 deduction of certain investments in associated corporations, non-qualifying intangibles and other items.
(4) Net of amortization.
(5) Under Basel I, the general allowance is included in Tier 2 capital up to a maximum of 0.875% of risk-weighted assets as per OSFI guidelines. Under Basel II, eligible general allowances in excess of expected losses for advanced internal ratings based exposures and the allocated portion for standardized exposures can be included in capital, subject to certain limitations.
(6) Net unrealized gains (after-tax) on available-for-sale equity securities.
(7) Comprised of investments in insurance entities, 50/50 deduction of certain investments in associated corporations and other items.

**T16** Changes in regulatory capital[(1)]

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

(1) Effective November 1, 2007, regulatory capital determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.
(2) Net of amortization.
(3) Represents changes to eligible general allowance, regulatory capital deductions for goodwill, non-qualifying intangibles, investments in insurance entities and associated corporations, securitization-related amounts, and other charges (credits) to retained earnings.

These were partially offset by:

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

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

### Tier 2 capital

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

### Risk-weighted assets

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

### Regulatory capital ratios

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

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

**T17** Selected capital management activity

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

(1) Represents primarily cash received for stock options exercised during the year, common shares issued pursuant to the Dividend and Share Purchase Plan and shares issued for acquisitions.
(2) For further details, refer to Note 15 of the Consolidated Financial Statements.
(3) For further details, refer to Note 14 of the Consolidated Financial Statements.
(4) For further details, refer to Note 12 of the Consolidated Financial Statements.
(5) For further details, refer to Note 13 of the Consolidated Financial Statements.

### Tangible common equity ratio

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

## Economic capital

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

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

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

## Share data and other capital instruments

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

**T18** Shares and other capital instruments
As at October 31, 2011

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

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

| Trust subordinated notes | Amount ($ millions) | Interest rate (%) | Number outstanding (000s) |
|---|---|---|---|
| Scotiabank Trust Subordinated Notes – Series A issued by Scotiabank Subordinated Notes Trust[13][14] | $ 1,000 | 5.25% | 1,000 |

| Options | Number outstanding (000s) |
|---|---|
| Outstanding options granted under the Stock Option Plans to purchase common shares[1][15] | 22,446 |

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

### Changing Regulatory Landscape

Basel II – Market Risk Amendment

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

Basel III

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

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

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

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

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

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

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

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

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

### Dividends

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

### Credit ratings

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

### Outlook

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

## Off-balance sheet arrangements

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

## Variable interest entities (VIEs)

Off-balance sheet arrangements with VIEs include:

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

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

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

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

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

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

### Multi-seller conduits sponsored by the Bank

The Bank sponsors three multi-seller conduits, two of which are Canadian and one is based in the United States. The Bank earned commercial paper issuance fees, program management fees, liquidity fees and other fees from these multi-seller conduits, which totaled $43 million in 2011, compared to $40 million in 2010.

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

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

#### *Canada*

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

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

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

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

(1) Funded assets are reflected at original cost, which approximates estimated fair value.
(2) Exposure to the Bank is through global-style liquidity facilities and letters of guarantee.
(3) These assets are substantially sourced from Canada.

*United States*

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

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

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

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

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

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

## Funding Vehicles

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

Collateralized debt obligation entities

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

## Securitizations

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

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

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

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

(1) Funded assets are reflected at original cost. The fair value of these assets as at October 31, 2011 was estimated to be $3.3 billion (October 31, 2010 – $2.7 billion).
(2) Exposure to the Bank is through global-style liquidity facilities in the form of liquidity asset purchase agreements.
(3) These assets represent secured loans that are externally rated investment grade.
(4) These assets are sourced from the United States.

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

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

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

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

### Guarantees and other commitments

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

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

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

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

## Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Selected credit instruments

### Mortgage-backed securities

Non-trading portfolio

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

Trading portfolio

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

**T21** Mortgage-backed securities

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

(1) Canada Mortgage and Housing Corporation provides a guarantee of timely payment to NHA mortgage-backed security investors.
(2) The assets underlying the commercial mortgage-backed securities in the non-trading portfolio relate primarily to non-Canadian properties.
(3) The assets underlying the commercial mortgage-backed securities in the trading portfolio relate to Canadian properties.

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

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

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

### Collateralized debt obligations and collateralized loan obligations

Non-trading portfolio

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

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

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

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

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

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

Trading portfolio

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

**T22** Collateralized debt obligations (CDOs)

Trading portfolio

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

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

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

## Exposure to monoline insurers

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

## Other

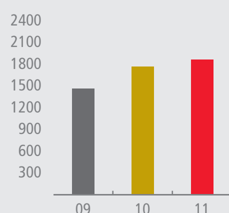
As at October 31, 2011, the Bank has insignificant exposure to highly leveraged loans awaiting syndication, auction-rate securities, Alt-A type loans and investments in structured investment vehicles.

# BUSINESS LINE OVERVIEW

### CANADIAN BANKING

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

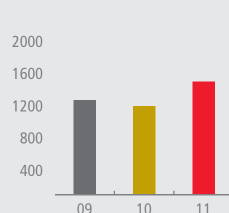
**C25** Canadian Banking net income *$ millions*




### INTERNATIONAL BANKING

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

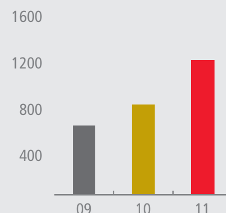
**C26** International Banking net income *$ millions*




### GLOBAL WEALTH MANAGEMENT

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

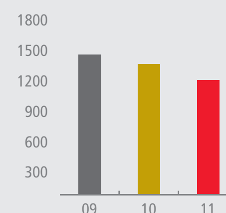
**C27** Global Wealth Management net income *$ millions*




### SCOTIA CAPITAL

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

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




**T23** 2011 financial performance

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

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

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

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

N/A Not applicable

# Canadian Banking

## 2011 Achievements

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

**T24** Canadian Banking financial performance

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

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

## Business Profile

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

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

## Strategy

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

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

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

## 2012 Priorities

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

## Financial Performance

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

### Assets and liabilities

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

### Revenues

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

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

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

#### Retail & Small Business Banking

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

#### Commercial Banking

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

### Non-interest expenses

Non-Interest Expenses continued to be subject to tight management control, increasing by $95 million or 3% in 2011. This growth was due mainly to the impact of annual merit increases on salaries, higher pension costs and the full year impact of the Harmonized Sales Tax introduced in certain provinces effective July 2010. Higher pension costs arose from changes in actuarial assumptions and plan asset volumes and were partly offset by a gain on the wind up of a subsidiary pension plan this year. Canadian Banking continued to invest in future growth in 2011 with costs related to new card products such as *Scotia Momentum* VISA Infinite and *Scotia Moneyback*, upgrades to our Scotia Online internet service and Scotiabank.com website, substantial increases in mobile banking transactions and new sponsorship relationships with a number of NHL teams, as the Bank's reach expands as "Canada's hockey bank".

### Credit quality

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

### Provision for income taxes

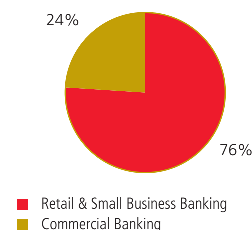
The effective tax rate of 28% declined from 30% last year, due primarily to the reduction in the statutory tax rate in Canada.

### Outlook

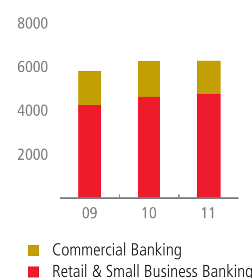
In 2012, it is expected that asset growth will moderate in Retail Banking but remain relatively strong in Small Business and Commercial Banking. Deposit growth will likely be tempered by continued low interest rates and increasing competition.

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

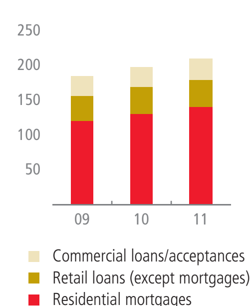
**C29** Canadian Banking total revenue
*As at October 31, 2011*




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




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



# International Banking

## 2011 Achievements

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

**T25** International Banking financial performance

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

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

## Business Profile

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

## Strategy

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

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

## 2012 Priorities

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

## Financial Performance

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

### Assets and liabilities

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

### Revenues

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

## Caribbean and Central America

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

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

## Mexico

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

## Latin America, Asia & Other

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

### Non-interest expenses

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

### Credit quality

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

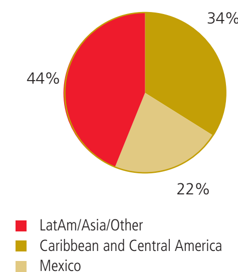
### Provision for income taxes

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

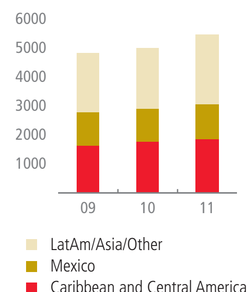
### Outlook

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

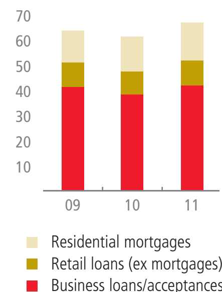
**C32** Total revenue



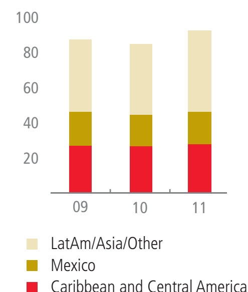

**C33** Total revenue by region
*$ millions*




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




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



# Global Wealth Management

## 2011 Achievements

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

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

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

**T26** Global Wealth Management financial performance

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

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

## Business Profile

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

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

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

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

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

## Strategy

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

## 2012 Priorities

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

## Financial Performance

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

### Assets and liabilities

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

### Revenues

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

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

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

#### Wealth Management

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

#### Insurance

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

### Non-interest expenses

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

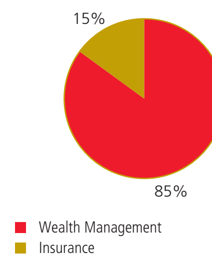
### Provision for income taxes

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

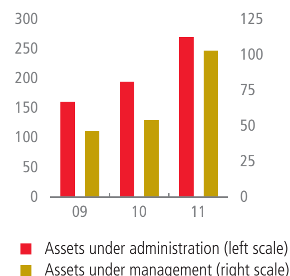
### Outlook

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

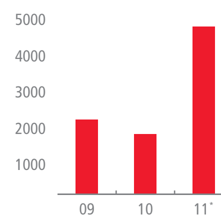
**C36** Total revenue




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




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




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

# Scotia Capital

## 2011 Achievements

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

Notable transactions during the year included:

- Scotia Waterous acted as Financial Advisor to BHP Billiton on its acquisition of Petrohawk Energy Corporation, for US$15.1 billion. This transaction was the largest oil and gas M&A deal since 2009, and the largest non-Canadian deal ever advised by a member of a Canadian bank group.

  Scotia Waterous also acted as Financial Advisor to BHP Billiton on its acquisition of Fayetteville Shale Assets from Chesapeake Energy Corporation for $4.75 billion.
- Scotia Capital participated in the US$5.45 billion IPO of Hutchison Port Holdings Trust on the Singapore Stock Exchange. The offering represented the largest ever IPO in Singapore and South East Asia. Scotiabank acted as Co-Manager and also provided loan underwriting services in association with this transaction, acting as Underwriter and Mandated Lead Arranger in an accompanying US$3 billion loan.

**T27** Scotia Capital financial performance

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

(1) Taxable equivalent basis.
(2) 2009 and 2010 ratios have been restated to conform with current methodology.
(3) Corporate Banking only.

## Business Profile

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

## Strategy

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

## 2012 Priorities

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

## Financial Performance

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

### Assets and liabilities

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

### Revenues

Total revenues during 2011 were $2,960 million compared to $3,179 million last year, a decline of 7% due primarily to challenging market conditions faced by Global Capital Markets especially in the latter half of 2011. There was a significant decline in revenues in the global fixed income business which was partly offset by higher contributions from the precious metals and foreign exchange businesses. Global Corporate and Investment Banking reported marginally higher revenues this year from growth in investment banking and lending revenues in Canada. This was offset by a decline in the United States.

Net interest income declined by 2% to $1,066 million, due primarily to a year-over-year decline in corporate loan volumes which was partly offset by higher spreads. Interest from trading operations also dropped slightly. Other income fell 9% to $1,894 million due mainly to lower trading revenues which were only partly offset by higher investment banking revenues and credit fees.

#### Global Corporate and Investment Banking

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

#### Global Capital Markets

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

### Non-interest expenses

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

### Credit quality

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

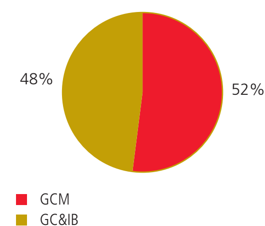
### Provision for income taxes

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

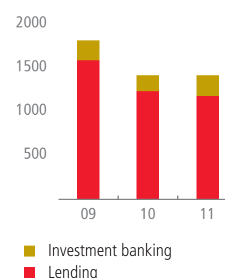
### Outlook

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

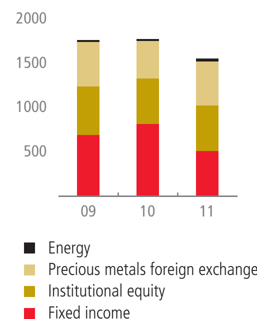
**C39** Total revenue



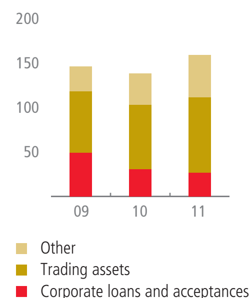

**C40** Global corporate and investment banking revenue
*$ millions*




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




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



# Other

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

## Financial performance

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

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

### Revenues

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

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

### Non-interest expenses

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

### Credit quality

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

### Provision for income taxes

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

**T28** Other financial performance

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

(1) 2009 and 2010 amounts have been restated to conform with current presentation.
(2) Includes the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes in Canadian Banking, International Banking and Scotia Capital to arrive at the amount reported in the Consolidated Statement of Income ($2011 – $287; 2010 – $286; 2009 – $288).

**KEY PERFORMANCE INDICATORS FOR ALL BUSINESS LINES**

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

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

# RISK MANAGEMENT

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

## Risk management framework

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

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

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

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

## Risk governance

**Effective risk management begins with effective risk governance.**

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

### The Board of Directors

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

### Management

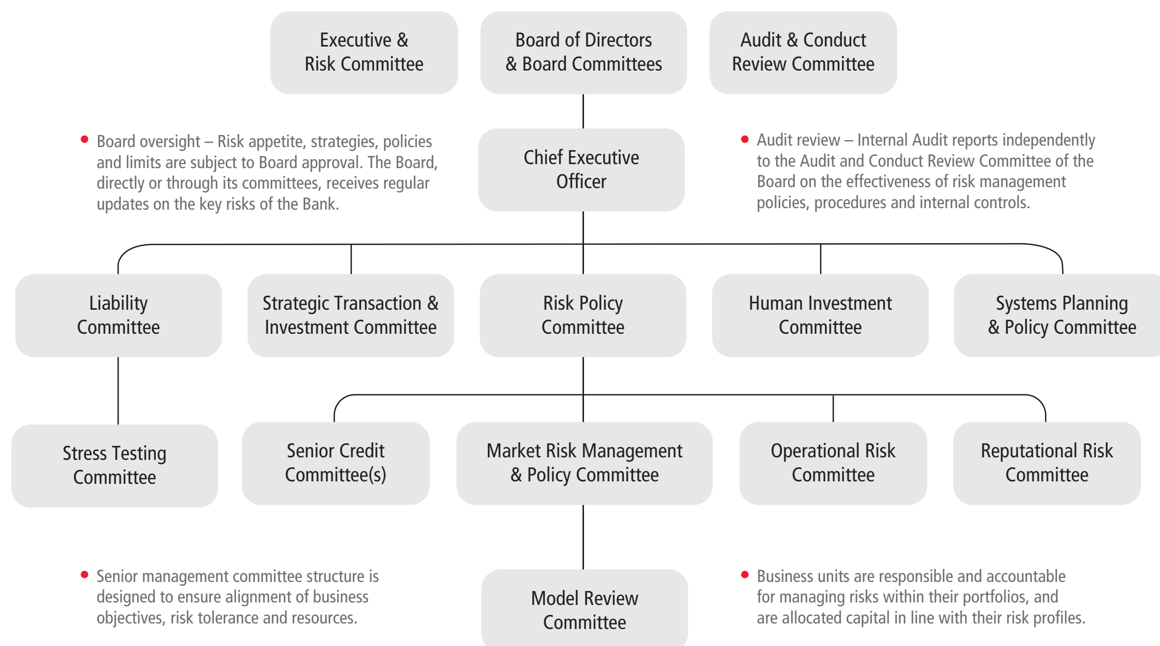
Executive management, and in particular the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), are responsible for risk management under the direct oversight of the Board. The CRO, who oversees the Global Risk Management (GRM) division of the Bank, reports to the CEO but also has direct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

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

### Global Risk Management (GRM)

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

# SCOTIABANK'S RISK GOVERNANCE STRUCTURE




## Executive Committees:

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

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

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

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

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

## Senior Management Committees:

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

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

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

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

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

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

## Risk Management Culture

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

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

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

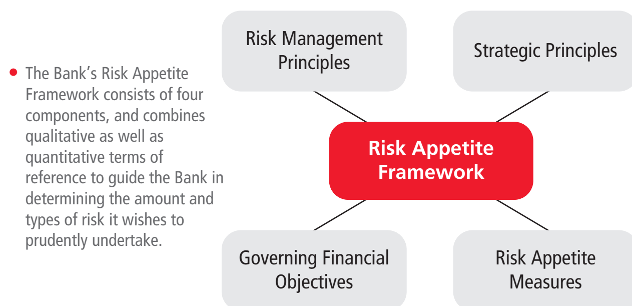
Decision-making on risk issues is highly centralized. The membership of senior and executive management committees responsible for the review, approval and monitoring of transactions and the related risk exposures, includes Business Line Heads and senior risk officers from Global Risk Management. The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

## Risk appetite

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

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

- The Bank's Risk Appetite Framework consists of four components, and combines qualitative as well as quantitative terms of reference to guide the Bank in determining the amount and types of risk it wishes to prudently undertake.




### Risk management principles

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

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

### Strategic principles

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

- Placing emphasis on the diversity, quality and stability of earnings,
- Focusing on core businesses by leveraging competitive advantages, and
- Making disciplined and selective strategic investments

### Governing financial objectives

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

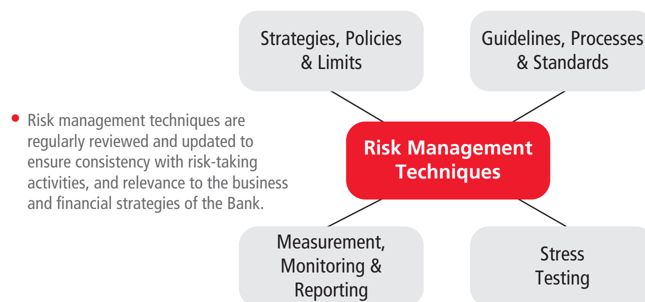
### Risk appetite measures

Provide objective metrics that gauge risk and articulate the Bank's risk appetite. They provide a link between actual risk taking activities and the risk management principles, strategic principles and governing financial objectives described above. These measures include capital and earnings ratios, market and liquidity risk limits, and credit and operational risk targets.

## Risk management techniques

**Effective risk management includes techniques that are guided by the Bank's Risk Appetite Framework and integrated with the Bank's strategies and business planning processes.**

- Risk management techniques are regularly reviewed and updated to ensure consistency with risk-taking activities, and relevance to the business and financial strategies of the Bank.




### Strategies, Policies & Limits

*Strategies*

Provide quantitative and qualitative guidance. This guidance is, in turn, used to set limits and guidelines on the types of risk taking activities the Bank is prepared to assume in pursuit of its strategic and financial objectives.

*Policies*

Apply to specific types of risk or to the activities that are used to measure and control risk exposure. They are based on recommendations from risk management, audit, business lines, and senior executive management. They also reflect industry best practices and any regulatory requirements. Policies are guided by the Bank's risk appetite, and set the limits and controls within which the Bank and its subsidiaries can operate.

- Key risk policies are approved by the Board of Directors, either directly or through the Board's Executive and Risk Committee (the Board).
- Management level risk policies associated with processes such as model development and stress testing are approved by executive management and/or key risk committees.

*Limits*

Control risk-taking activities within the tolerances established by the Board and senior executive management. Limits also establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

### Guidelines, Processes and Standards

*Guidelines*

Are the directives provided to implement policies as set out above. Generally, they describe the facility types, aggregate facility exposures and conditions under which the Bank is prepared to do business. Guidelines ensure the Bank has the appropriate knowledge of clients, products, and markets, and that it fully understands the risks associated with the business it underwrites. Guidelines may change from time to time, due to market or other circumstances. Risk taking outside of guidelines usually requires approval of the Bank's Senior Credit Committees, Market Risk Management and Policy Committee, or Risk Policy Committee.

*Processes*

Are the activities associated with identifying, evaluating, documenting, reporting and controlling risk.

*Standards*

Define the breadth and quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation. Processes and standards are developed on an enterprise-wide basis, and documented in a series of policies, manuals and handbooks under the purview of GRM. Key processes cover the review and approval of new products, model validation and stress testing.

### Measurement, Monitoring, and Reporting

*Measurement*

GRM is responsible for developing and maintaining an appropriate suite of risk management techniques to support the operations of the various business lines, and for supporting the measurement of economic capital on an enterprise-wide basis. The risk sections explain the application of these techniques.

Risk measurement techniques include the use of models and stress testing. The Bank uses models for a range of purposes including to estimate the value of transactions, risk exposures, credit risk ratings and parameters, and economic and regulatory capital. The use of quantitative risk methodologies and models is balanced by a strong governance framework and includes the application of sound and experienced judgement. The development, independent review, and approval of models are subject to formalized policies where applicable, including the oversight of senior management committees such as the Model Review Committee for market risk (including counterparty credit risk) and liquidity risk models.

*Monitoring*

The Bank regularly monitors its risk exposures to ensure business activities are operating within approved limits or guidelines, and the Bank's strategies and risk appetite. Breaches, if any, of these limits or guidelines are reported to senior management, policy committees, and/or the Board depending on the limit or guideline.

*Reporting*

Risk reports aggregate measures of risk across products and businesses, and are used to ensure compliance with policies, limits, and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the Bank's portfolios. Senior management and the Board use this information to understand the Bank's risk profile and the performance of the portfolios.

Control and audit functions are also established that are independent of the organizations whose activities they review, and whose role includes ensuring that all of the components of the risk management framework are effective and being implemented on a day to day basis.

*Stress testing*

The Bank uses stress testing programs at both enterprise-wide level and risk level to estimate the potential impact on the Bank's income and capital as a result of significant changes in market conditions, credit environment, liquidity demands, or other risk factors. Each program is developed with input from a broad base of stakeholders, and results are integrated into management decision-making processes for capital, funding, market risk limits, and credit risk strategy. Enterprise-wide stress testing is also integrated with both the strategic and financial planning processes. The development, approval and on-going review of the Bank's stress testing programs are subject to formalized policy, and are under the oversight of the Stress Testing Committee, which reports to the Liability Committee.

## Basel II

The Basel II regulatory capital framework governs minimum regulatory capital requirements to cover three broad categories of risk – credit risk, market risk and operational risk. This framework is organized under three broad categories or pillars:

- Pillar 1 stipulates the methodologies and parameters that must be applied to calculate minimum capital requirements.
- Pillar 2 introduces the requirement for formal internal assessment of capital adequacy in relation to strategies, risk appetite, and actual risk profile. Regulators are required to review this internal capital adequacy assessment process (ICAAP – for further discussion, refer to the Capital Management section on page 42).
- Pillar 3 enhances public disclosure (both quantitative and qualitative) of specific details of risks being assumed, and how capital and risk are being managed under the Basel II framework.

The following sections on Credit Risk, Market Risk, and Operational Risk include descriptions of the Pillar 1 methodologies and risk parameters, as well as some of the enhanced disclosure requirements associated with Pillar 3.

## Credit risk

**Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit risk arises in the Bank's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment or other obligations to the Bank.**

The effective management of credit risk requires the establishment of an appropriate credit risk culture. Key credit risk policies and credit risk management strategies are important elements used to create this culture.

The Board of Directors, either directly or through the Executive and Risk Committee (the Board), reviews and approves the Bank's credit risk strategy and credit risk policy on an annual basis:

- The objectives of the credit risk strategy are to ensure that:
  - target markets and product offerings are well defined at both the enterprise-wide and business line levels;

- the risk parameters for new underwritings and for the portfolios as a whole are clearly specified; and
- transactions, including origination, syndication, loan sales and hedging, are managed in a manner that is consistent with the Bank's risk appetite.

- The credit risk policy articulates the credit risk management framework, including:
  - aggregate limits, beyond which credit applications must be escalated to the Board for approval; and
  - single name/aggregation exposures, beyond which exposures must be reported to the Board.

Global Risk Management develops the credit risk management framework and policies that detail, among other things, the credit risk rating systems and associated parameter estimates; the delegation of authority for granting credit; the calculation of the allowance for credit losses; and the authorization of write-offs.

Corporate and commercial credit exposures are segmented by country and by major industry group. Aggregate credit risk limits for each of these segments are also reviewed and approved annually by the Board. Portfolio management objectives and risk diversification are key factors in setting these limits.

Consistent with the Board-approved limits, borrower limits are set within the context of established lending criteria and guidelines for individual borrowers, particular industries, countries and certain types of lending, to ensure the Bank does not have excessive concentration in any single borrower, or related group of borrowers, particular industry sector or geographic region. Through the portfolio management process, loans may be syndicated to reduce overall exposure to a single name. For certain segments of the portfolio, credit derivative contracts are also used to mitigate the risk of loss due to borrower default. Risk is also mitigated through the selective sale of loans.

Banking units and Global Risk Management regularly review the various segments of the credit portfolio on an enterprise-wide basis to assess the impact of economic trends or specific events on the performance of the portfolio, and to determine whether corrective action is required. These reviews include the examination of the risk factors for particular products, industries and countries. The results of these reviews are reported to the Risk Policy Committee and, when significant, to the Board.

### Risk measures

The credit risk rating systems support the determination of key credit risk parameter estimates which measure credit and transaction risk. These risk parameters – probability of default, loss given default and exposure at default are transparent and may be replicated in order to provide consistency of credit adjudication, as well as minimum lending standards for each of the risk rating categories. The parameters are an integral part of enterprise-wide policies and procedures encompassing governance, risk management, and control structure, and are used in various internal and regulatory credit risk quantification calculations.

The Bank's credit risk rating system is subject to a rigorous validation, governance and oversight framework. The objectives of this framework are to ensure that:

- Credit risk rating methodologies and parameters are appropriately designed and developed, independently validated, and regularly reviewed; and
- The review and validation processes represent an effective challenge to the design and development process.

Credit risk rating methodologies and parameters are reviewed and validated at least annually. Units within Global Risk Management are responsible for design and development, validation and review, and are functionally independent from the business units responsible for originating transactions. Within Global Risk Management, they are also independent from the units involved in risk rating approval and credit adjudication.

Internal credit risk ratings and associated risk parameters affect loan pricing, computation of the general allowance for credit losses, and return on economic capital.

### Corporate and commercial

Corporate and commercial credit exposure arises in Canadian Banking, International Banking, Global Wealth Management and Scotia Capital business lines.

*Adjudication*

Credit adjudication units within Global Risk Management analyze and evaluate all significant credit requests for corporate and commercial credit exposures, to ensure that risks are adequately assessed, properly approved, continually monitored and actively managed. The decision-making process begins with an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include:

- The borrower's management;
- The borrower's current and projected financial results and credit statistics;
- The industry in which the borrower operates;
- Economic trends; and
- Geopolitical risk.

Based on this assessment, a risk rating is assigned to the individual borrower or counterparty, using the Bank's risk rating systems.

A separate risk rating is also assigned at the facility level, taking into consideration additional factors, such as security, seniority of claim, structure, term and any other forms of credit risk mitigation that affect the amount of potential loss in the event of a default of the facility. Security typically takes the form of charges over inventory, receivables, real estate, and operating assets when lending to corporate and commercial borrowers; and cash or treasuries for trading lines such as securities lending, repurchase transactions, and derivatives. The types of acceptable collateral, and related valuation processes are documented in risk management policies and manuals. Other forms of credit risk mitigation include third party guarantees and, in the case of derivatives facilities, master netting agreements.

Internal borrower and facility risk ratings are assigned when a facility is first authorized, and are promptly re-evaluated and adjusted, if necessary, as a result of changes to the customer's financial condition or business prospects. Re-evaluation is an ongoing process, and is done in the context of general economic changes, specific industry prospects, and event risks, such as revised financial projections, interim financial results and extraordinary announcements. Global Risk Management is the final arbiter of internal risk ratings.

The internal credit risk ratings are also considered as part of the Bank's single borrower limits, as guidelines for hold levels are tied to different risk ratings. Single borrower limits are much lower for higher risk borrowers than low risk borrowers.

The credit adjudication process also uses a risk-adjusted return on equity profitability model to ensure that the client and transaction structure offers an appropriate return for a given level of risk. For the

corporate portfolio, and the large borrowers in International, the Loan Portfolio Management Group reviews the profitability model results, together with external benchmarks, and provides an opinion on the relative return and pricing of each transaction above a minimum threshold.

Individual credit exposures are regularly monitored by both the business line units and Global Risk Management for any signs of deterioration. In addition, a review and risk analysis of each borrower is conducted annually, or more frequently for higher-risk borrowers. If, in the judgement of management, an account requires the expertise of specialists in workouts and restructurings, it will be transferred to a special accounts group for monitoring and resolution.

*Traded Products*

Traded products are transactions such as derivatives, foreign exchange, commodities, repurchase/reverse repurchase agreements, and securities lending/borrowing. Credit risks arising from traded products cannot be determined with certainty at the outset, because during the tenure of a transaction the dollar value of the counterparty's obligation to the Bank will be affected by changes in the capital markets (such as changes in stock prices, interest rates, exchange rates). The Bank adjudicates credit exposures arising from transacting in traded products by considering their current fair value plus an additional component to reflect potential future changes in their mark-to-market value. The credit adjudication process also includes an evaluation of potential wrong way risk, which arises when the exposure to a counterparty is positively correlated to the probability of default of that counterparty.

Credit risk associated with traded products is managed within the same credit adjudication process as the lending business. The Bank considers the credit risk arising from lending activities, as well as the potential credit risk arising from transacting in traded products with that counterparty.

Most traded products transactions benefit from credit mitigation techniques, such as netting and collateralization, which are taken into consideration in the calculation of counterparty credit risk exposure. A master netting agreement allows for a single net settlement of all transactions covered by that agreement in the event of a default or early termination of the transactions. Collateral agreements with a counterparty allow for variation margin to be called if total uncollateralized mark-to-market exposure exceeds an agreed upon threshold.

Investment grade counterparties account for approximately 90% of the credit risk amount arising from the Bank's derivative transactions. Approximately 56% of the Bank's derivative counterparty exposures are to bank counterparties. After taking into consideration, where applicable, netting and collateral arrangements, no net credit risk amount arising from traded products transactions with any single counterparty was considered material to the financial position of the Bank as at October 31, 2011. No individual exposure to either a non-investment grade counterparty or a corporate counterparty exceeded $173 million.

*Risk ratings*

The Bank's risk rating system utilizes internal grade (IG) codes – an 18 point scale used to differentiate the risk of default of borrowers, and the risk of loss on facilities. The general relationship between the Bank's internal borrower IG codes and external agency ratings is shown in Table 29.

**T29** Internal rating scale[1] and mapping to external rating agencies

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

(1) Applies to non-retail portfolio.

IG codes are also used to define credit adjudication authority levels appropriate to the size and risk of each credit application. Lower-rated credits require increasingly more senior management involvement depending upon the aggregate exposure. Where the decision is beyond their authority levels, credit units will refer the request – with its recommendation – to a senior credit committee for adjudication. Senior credit committees also have defined authority levels and, accordingly, forward certain requests to the Risk Policy Committee. In certain cases, these must be referred to the Executive and Risk Committee of the Board of Directors.

*Credit risk and capital*

The Bank uses the Advanced Internal Ratings Based (AIRB) approach under Basel II to determine minimum regulatory capital requirements for its domestic, U.S. and European credit portfolios. In 2011, certain international non-retail portfolios implemented the AIRB approach. The remaining credit portfolios are subject to the Standardized approach, which relies on the credit ratings of borrowers, if available, to compute regulatory capital for credit risk. For AIRB portfolios, the key risk measures used in the quantification of regulatory capital for credit risk include probability of default (PD), loss given default (LGD) and exposure at default (EAD).

- Probability of default (PD) measures the likelihood that a borrower, with an assigned IG code, will default within a one-year time horizon. Each of the Bank's internal borrower IG codes is mapped to a PD estimate.
- Loss given default (LGD) measures the severity of loss on a facility in the event of a borrower's default. The Bank's internal LGD grades are mapped to ranges of LGD estimates. LGD grades are assigned based on facility characteristics such as seniority, collateral type, collateral coverage and other structural elements.
- Exposure at default (EAD) measures the expected exposure on a facility in the event of a borrower's default.

All three risk measures are estimated using the Bank's historical data, as well as available external benchmarks, and are updated on a regular basis. Further analytical adjustments, as required under the Basel II Framework and OSFI's requirements set out in their Domestic Implementation Notes, are applied to estimates obtained from historical data. These analytical adjustments incorporate the regulatory requirements pertaining to:

- Long-run estimation of PD, which requires that PD estimates capture average default experience over a reasonable mix of high-default and low-default years of the economic cycle;
- Downturn estimation for LGD and EAD, which requires that these estimates appropriately reflect conditions observed during periods of economic stress; and

- The addition of an adequate level of conservatism, which should reflect the various sources of uncertainty inherent in historical estimates.

These risk measures are used in the calculation of regulatory capital requirements based on formulas specified by the Basel framework. The credit quality distribution of the Bank's AIRB non-retail portfolio is shown in Table 30.

## Retail

Retail credit exposure arises in the Canadian Banking, International and Wealth Management business lines.

*Adjudication*

The decision-making process for retail loans ensures that credit risks are adequately assessed, properly approved, continually monitored and actively managed. Generally, decisions on consumer loans are based on risk ratings, which are generated using predictive credit scoring models. Individual credit requests are processed by proprietary adjudication software.

The Bank's credit adjudication and portfolio management methodologies are designed to ensure consistent underwriting and early identification of problem loans. The Bank's rigorous credit underwriting methodology and risk modeling in Canada is more customer focused than product focused. The Bank's view is that a customer-centric approach provides better risk assessment than product-based approaches, and should result in lower loan losses over time. The adjudication system calculates the maximum debt for which a customer qualifies, allowing customers to choose the products that satisfy all of their credit needs. International Banking uses a similar approach to risk modeling, adjudication and portfolio management.

**T30** Credit risk assessment of exposures

Non-retail AIRB portfolio[(1)]

| As at Oct. 31, 2011 | Exposure at default[(3)] ($ millions) | Exposure Weighted Average PD (%)[(4)] | Exposure Weighted Average LGD (%)[(5)] | Exposure Weighted Average RW (%)[(6)] |
|---|---|---|---|---|
| Investment grade[(2)] | **231,063** | **0.12** | **25** | **18** |
| Non-investment grade | **57,936** | **0.97** | **42** | **72** |
| Watch list | **3,019** | **30.16** | **42** | **204** |
| Default[(7)] | **1,799** | **100.00** | **41** | **248** |
| Total | **293,817** | **1.21** | **29** | **32** |
| Total as at Oct. 31, 2010 | 222,255 | 0.92 | 29 | 28 |

(1) Excludes securitization exposures.
(2) Includes government guaranteed residential mortgages.
(3) After credit risk mitigation.
(4) PD – Probability of Default.
(5) LGD – downturn Loss Given Default including a certain conservative factor as per Basel accord.
(6) RW – Risk Weight.
(7) Gross defaulted exposures, before any related allowances. Defaulted exposures under Basel II definition may be higher than those under accounting definition.

Credit scoring and policy changes are proposed by risk departments in the business lines with governance, oversight and key approvals made by Global Risk Management. Risk models and parameters are also subject to Global Risk Management's validation and ongoing review. The review process includes referral to the appropriate Senior Credit Committee for approval, where required. Consumer credit portfolios are reviewed monthly to identify emerging trends in loan quality and to assess whether corrective action is required.

*Risk ratings*

The Bank's consumer risk rating systems are oriented to borrower or transaction risk. Each retail exposure is assigned a risk grade based on the customer's credit history and/or internal credit score. The Bank's automated risk rating systems assess the ongoing credit-worthiness of individual customers on a monthly basis. This process provides for meaningful differentiation of risk, which allows for accurate, timely and consistent estimation of probability of default and loss, as well as early identification and management of problem loans.

The overall risk ratings system is reviewed annually with specific components evaluated frequently and more thoroughly if significant deterioration is detected in a portfolio or in the performance of a credit scorecard. Risk model validations are conducted independently from the areas responsible for rating system development and implementation, to ensure effective independence.

The Bank's Canadian retail portfolio uses the AIRB approach under Basel II, while the International portfolios are subject to the Standardized approach at this time.

*Credit Risk and Capital – Canadian retail*

The AIRB approach is used to determine minimum regulatory capital requirements for the retail credit portfolio. AIRB risk parameters – estimates of probability of default (PD), exposure at default (EAD), and loss given default (LGD) – are fundamental tools in credit review and risk management. They are used as part of the ongoing review and monitoring of policies and procedures. As well, these parameters, along with the estimation of expected loss, are used to determine the Bank's economic capital requirements. The expected loss calculation is also compared to the provisions in Canadian Banking to assess the reasonability of the risk parameters.

PD is estimated using a statistical model that is applied to all performing (non-defaulted) loans. The model predicts the probability that the facility will default within the next 12 months. The model uses all relevant information, including internal performance, credit bureau score, and certain macroeconomic factors. All retail portfolios use the Basel definition of default in calculating PD. The retail portfolio is comprised of the following Basel-based pools:

- Residential real estate secured exposures: consists of conventional and high ratio residential mortgages and all other products opened under the Scotia Total Equity Plan (STEP), such as loans, credit cards and secured lines of credit;
- Qualifying revolving retail exposures: consists of all unsecured credit cards and lines of credit;
- Other retail consists of term loans (secured and unsecured), as well as credit cards and lines of credit which are secured by assets other than real estate.

Fifteen PD bands are calculated for each retail portfolio, which are then summarized into fewer bands as shown in Table 31.

Retail facilities can generally be cancelled unconditionally at time of default, meaning no additional drawdown of a facility is possible after default. EAD measures the increases in the balance of revolving facilities from the time they are initially observed until the point of default. This historic experience is used to estimate the value of defaulted exposures in the portfolio over the next 12 months.

LGD is calculated by dividing the losses (less the present value of recoveries and collection costs) by EAD. The historic LGD is used to estimate the LGD that will be experienced in the portfolio in the following 12 months.

These risk measures are then converted into regulatory capital requirements by means of formulas specified by the Basel Committee. The credit quality distribution of the Bank's AIRB retail portfolio is shown below in Table 32.

*International retail*

International retail credit portfolios follow the Standardized approach and consist of the following components:

- Residential real estate secured lending;
- Qualifying revolving retail exposures consisting of all credit cards and lines of credit;
- Other retail consisting of term loans.

## Market Risk

**Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility. A description of each market risk category is provided below:**

### Interest rate risk

The risk of loss due to changes in the level, slope and curvature of the yield curve; the volatility of interest rates; and mortgage prepayment rates.

### Credit spread risk

The risk of loss due to changes in the market price of credit, or the credit-worthiness of a particular issuer.

### Foreign currency risk

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

### Equity risk

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

### Commodity risk

The risk of loss due primarily to changes in, and volatility of, spot and forward prices of precious and base metals, and energy products.

| FUNDING | INVESTMENTS | TRADING |
|---|---|---|
| Interest rate risk | Interest rate risk | Interest rate risk |
| Foreign currency risk | Credit spread risk | Credit spread risk |
| | Foreign currency risk | Foreign currency risk |
| | Equities risk | Equities risk |
| | | Commodities risk |

The Board of Directors reviews and approves market risk policies and limits annually. The Bank's Liability Committee (LCO) and Market Risk Management and Policy Committee (MRMPC) oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures. The MRMPC establishes specific operating policies, and sets limits at the product, portfolio, business unit and business line levels, and for the Bank in total. Limits are reviewed at least annually.

Global Risk Management provides independent oversight of all significant market risks, supporting the MRMPC and LCO with analysis, risk measurement, monitoring, reporting, proposals for standards and support for new product development. To ensure compliance with policies and limits, market risk exposures are independently monitored on a continuing basis, either by Global Risk Management or by the back offices. They provide senior management, business units, the LCO, and the MRMPC with a series of daily, weekly and monthly reports of market risk exposures by business line and risk type.

The Bank uses a variety of metrics and models to measure and control market risk exposures. These measurements are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Value at Risk (VaR), stress testing, sensitivity analysis and simulation modeling, and gap analysis. The use and attributes of each of these techniques are noted in the Risk Measurement Summary. Models are independently validated prior to implementation and are subject to formal periodic review.

**T31** Retail loan probability of default scale

| Category of PD Grades | PD Range |
|---|---|
| Very low | 0.0000% – 0.2099% |
| Low | 0.2100% – 0.4599% |
| Medium | 0.4600% – 3.1999% |
| High | 3.2000% – 17.2899% |
| Very high | 17.2900% – 99.9999% |
| Default | 100% |

**T32** Credit risk assessment of exposures – Retail AIRB portfolio

| As at October 31, 2011 | Exposure at default (EAD)(1) ($ millions) | Exposure Weighted Average PD (%)(2)(5) | Exposure Weighted Average LGD (%)(3)(5) | Exposure Weighted Average RW (%)(4)(5) |
|---|---|---|---|---|
| Very low | **92,167** | **0.10** | **24** | **4** |
| Low | **16,370** | **0.37** | **44** | **18** |
| Medium | **27,682** | **1.33** | **43** | **36** |
| High | **6,253** | **6.60** | **44** | **83** |
| Very high | **1,104** | **38.10** | **41** | **129** |
| Default(6) | **542** | **100.00** | **66** | **–** |
| Total | **144,118** | **1.31** | **31** | **16** |
| Total as at October 31, 2010 | 130,951 | 1.08 | 33 | 16 |

(1) After credit risk mitigation.
(2) PD – Probability of Default.
(3) LGD – Loss Given Default.
(4) RW – Risk Weight.
(5) Exposure at default used as basis for estimated weightings.
(6) Gross defaulted exposures, before any related allowances.

## Risk Measurement Summary

### Value at risk

Value at Risk (VaR) is a method of measuring market risk based upon a common confidence interval and time horizon. It is a statistical estimate of expected potential loss that is derived by translating the riskiness of any financial instrument into a common standard. The Bank calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios. This means that about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. The Bank calculates general market risk and equity specific risk VaR using historical simulation based on 300 days of market data. For debt specific risk VaR, the Bank uses a combination of Monte Carlo and historical simulation. Changes in VaR between reporting periods are generally due to changes in levels of exposure, volatilities and/or correlations among asset classes. VaR is also used to evaluate risks arising in certain funding and investment portfolios. Back testing is also an important and necessary part of the VaR process, by validating the quality and accuracy of the Bank's VaR model. The Board reviews VaR results quarterly.

### Stress testing

VaR measures potential losses in normally active markets. An inherent limitation of VaR is that it gives no information about how much losses could exceed their expected levels. Accordingly, stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can easily absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis. The Bank also evaluates risk in its investment portfolios on a monthly basis, using stress tests based on risk factor sensitivities and specific market events. The stress testing program is an essential component of the Bank's comprehensive risk management framework which complements the current VaR methodology and other risk measures and controls employed by the Bank. The Board reviews stress testing results quarterly.

### Sensitivity analysis and simulation modeling

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of shareholders' equity related to non-trading portfolios. It is applied globally to each of the major currencies within the Bank's operations. Simulation models enable the Bank to assess interest rate risk under a variety of scenarios over time. The models incorporate assumptions about changes in interest rates, shape of the yield curve, embedded product options, maturities and other factors. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers.

### Gap analysis

Gap analysis is used to assess the interest rate sensitivity of the Bank's Canadian and international operations. Under gap analysis, interest rate sensitive assets, liabilities and off-balance sheet instruments are assigned to defined time periods on the basis of expected re-pricing dates.

### Funding and investment activities

Market risk arising from the Bank's funding and investment activities is identified, managed and controlled through the Bank's asset-liability management processes. The LCO meets weekly to review risks and opportunities, and evaluate performance including the effectiveness of hedging strategies.

*Interest Rate Risk*

The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's lending, funding and investment activities is managed in accordance with Board-approved policies and global limits, which are designed to control the risk to income and economic value of shareholders' equity. The income limit measures the effect of a specified change in interest rates on the Bank's annual net interest income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures in individual currencies are also controlled by gap limits. Gap analysis, simulation modeling, sensitivity analysis and VaR are used to assess exposures and for planning purposes.

Table 34 shows the after-tax impact of a 100 and 200 basis point shift on annual income and economic value of shareholder's equity. Based on the Bank's interest rate positions at year-end 2011, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income after-tax by approximately $178 million over the next 12-months. During fiscal 2011, this measure ranged between $143 million and $211 million. This same increase in interest rates would result in an after-tax decrease in the present value of the Bank's net assets of approximately $144 million. During fiscal 2011, this measure ranged between $121 million and $249 million.

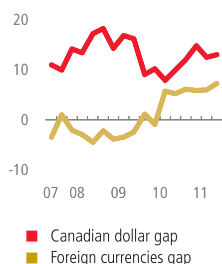
Interest rate risk exposure calculations are generally based on the earlier of contractual re-pricing or maturity of on-balance sheet and off-balance sheet assets and liabilities, although certain assets and liabilities such as credit cards and deposits without a fixed maturity are assigned a maturity profile based on the longevity of the exposure. Expected prepayments from loans and cashable investment products are also incorporated into the exposure calculations. Common shareholders' equity is assumed to be non-interest rate sensitive.

**T33** Interest rate gap

| Interest rate sensitivity position[1]<br>As at October 31, 2011<br>($ billions) | Within 3 months | 3 to 12 months | Over 1 year | Non-interest rate sensitive | Total |
|---|---|---|---|---|---|
| **Canadian dollars** | | | | | |
| Assets | $196.0 | $ 22.1 | $77.2 | $ 7.2 | $302.5 |
| Liabilities | 171.1 | 34.0 | 83.9 | 13.5 | 302.5 |
| Gap | 24.9 | (11.9) | (6.7) | (6.3) | – |
| Cumulative gap | 24.9 | 13.0 | 6.3 | – | |
| **Foreign currencies** | | | | | |
| Assets | $202.0 | $ 17.9 | $24.9 | $ 28.0 | $272.8 |
| Liabilities | 198.6 | 14.0 | 16.3 | 43.9 | 272.8 |
| Gap | 3.4 | 3.9 | 8.6 | (15.9) | – |
| Cumulative gap | 3.4 | 7.3 | 15.9 | – | |
| **Total** | | | | | |
| Gap | $ 28.3 | $ (8.0) | $ 1.9 | $ (22.2) | |
| Cumulative gap | 28.3 | 20.3 | 22.2 | – | |
| As at October 31, 2010: | | | | | |
| Gap | $ 24.7 | $ (9.5) | $ 6.4 | $ (21.6) | |
| Cumulative gap | 24.7 | 15.2 | 21.6 | – | |

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

**C43** Interest rate gap
*$ billions, one-year interest rate gap*




**T34** Structural interest sensitivity

| As at October 31 ($ millions) | 2011 Economic Value of Shareholders' Equity | 2011 Annual Income | 2010 Economic Value of Shareholders' Equity | 2010 Annual Income |
|---|---|---|---|---|
| After-Tax Impact of | | | | |
| 100bp increase in rates | **(144)** | **178** | (415) | 50 |
| 100bp decrease in rates | **86** | **(185)** | 411 | (35) |
| After-Tax Impact of | | | | |
| 200bp increase in rates | **(300)** | **368** | (829) | 102 |
| 200bp decrease in rates | **124** | **(366)** | 858 | (80) |

*Foreign currency risk*

Foreign currency risk in the Bank's unhedged funding and investment activities arises primarily from the Bank's net investments in self-sustaining foreign operations as well as foreign currency earnings in its domestic and remitting foreign branch operations.

The Bank's foreign currency exposure to its net investments in self-sustaining foreign operations is controlled by a Board-approved limit. This limit considers factors such as potential volatility to shareholders' equity as well as the potential impact on capital ratios from foreign exchange fluctuations. On a quarterly basis, the LCO reviews the Bank's foreign currency net investment exposures and determines the appropriate hedging strategies. These may include funding the investments in the same currency or using other financial instruments, including derivatives.

In accordance with GAAP, foreign currency translation gains and losses from net investments in self-sustaining foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income within shareholders' equity. However, the Bank's regulatory capital ratios are not materially affected by these foreign exchange fluctuations because the risk-weighted assets of the foreign operations tend to move in a similar direction.

The Bank is also subject to foreign currency translation risk on the earnings of its foreign operations which are not self-sustaining. The Bank forecasts foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, over a number of future fiscal quarters. The LCO also assesses economic data trends and forecasts to determine if some or all of the estimated future foreign currency revenues and expenses should be hedged. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency options and swaps. Certain of these economic hedges may not qualify for hedge accounting resulting in a potential for a mismatch in the timing of the recognition of economic hedge gains/losses and the underlying foreign earnings translation gains/losses. In accordance with GAAP, foreign currency translation gains and losses from positions in operations that are not self-sustaining are recorded directly in earnings.

As at October 31, 2011, a one per cent increase in the Canadian dollar against all currencies in which the Bank operates, decreases the Bank's before-tax annual earnings by approximately $33 million in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar would increase the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately $216 million as at October 31, 2011, net of hedging.

*Investment portfolio risks*

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

## Trading activities

Scotiabank's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily customer focused, but also include a proprietary component.

Market risk arising from the Bank's trading activities is managed in accordance with Board-approved policies, and aggregate VaR and stress testing limits. The quality of the Bank's VaR is validated by regular backtesting analysis, in which the VaR is compared to theoretical and actual profit and loss results. A VaR at the 99% confidence interval is an indication of the probability that losses will exceed the VaR if positions remain unchanged during the next business day. Trading positions are however managed dynamically and as a result actual profit/loss backtesting exceptions are uncommon. During fiscal 2011 there were five theoretical profit/loss exceptions and one actual profit/loss exception.

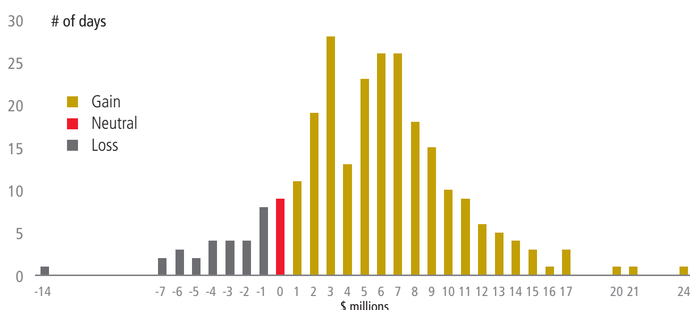
In fiscal 2011, the one-day VaR for trading activities averaged $11.3 million, compared to $12.5 million in 2010. The decrease was primarily due to lower interest rate risk.

Chart 44 shows the distribution of daily trading revenue for fiscal 2011. Trading revenue averaged $4.3 million per day, compared to $5.6 million for 2010. Revenue was positive on more than 88% of trading days during the year, unchanged from 2010. During the year the largest single day trading loss was $14.4 million which occurred on August 8, 2011 and was higher than the general market risk VaR of $10.8 million on the same day.

**T35** One-day VaR by risk factor

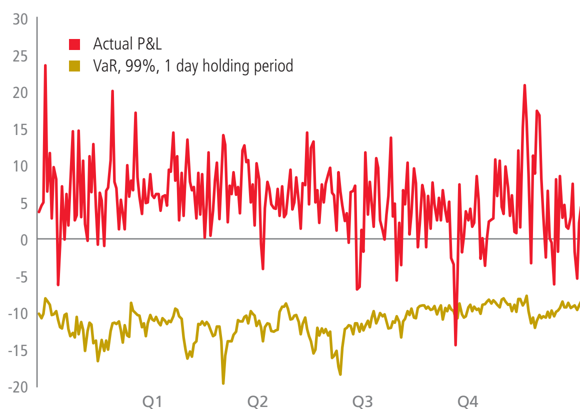
| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions) | Year end | Avg | High | Low | Year end | Avg | High | Low |
| Interest rate | **8.3** | **10.3** | **20.9** | **6.2** | 9.0 | 11.7 | 19.0 | 7.3 |
| Equities | **1.7** | **4.8** | **10.9** | **1.1** | 3.4 | 5.1 | 14.1 | 2.3 |
| Foreign exchange | **1.3** | **1.2** | **2.4** | **0.4** | 0.9 | 1.7 | 4.6 | 0.6 |
| Commodities | **2.6** | **2.2** | **4.5** | **1.2** | 1.5 | 2.1 | 5.6 | 0.6 |
| Diversification | **(5.4)** | **(7.2)** | **N/A** | **N/A** | (6.3) | (8.1) | N/A | N/A |
| All-Bank VaR | **8.5** | **11.3** | **19.6** | **7.8** | 8.5 | 12.5 | 19.5 | 7.4 |

**C44** Trading revenue distribution[(1)]
*Year ended October 31, 2011*




(1) Taxable equivalent basis; refer to non-GAAP measures on page 29.

**C45** Daily trading revenue vs. VaR[(1)]
*$ millions, November 1, 2010 to October 31, 2011*




(1) Taxable equivalent basis; refer to non-GAAP measures on page 29.

### Calculation of market risk capital for trading

The assessment of market risk for trading activities includes both general market risk and specific risk. General market risk is defined as the risk of loss arising from adverse changes in market prices. Specific risk is defined as the risk of loss caused by an adverse price movement of a debt or equity instrument due principally to factors related to the issuer. Under the Basel II capital adequacy guidelines, the specific risk capital and general market risk capital requirements apply to interest rate risk and equity risk. The general market risk capital requirement also applies to commodities risk and foreign exchange risk.

For all material trading portfolios, the Bank applies its internal Value at Risk (VaR) model to calculate the capital charge for general market risk and specific risk. The attributes/parameters of this model are described in the Risk Measurement Summary on page 71. The Office of the Superintendent of Financial Institutions (OSFI) has approved the Bank's internal VaR model for the determination of its General Market Risk Capital and Equity and Debt Specific Risk Capital requirements.

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

The Bank has assessed the quantitative impact on market risk capital of the new trading book rules under the Basel II market risk framework and estimates the increase will be up to $12 billion in risk weighted assets despite the fact that trading risk appetite remains unchanged. This number is based on balances at October 31, 2011 and may change as a result of changes in the portfolio and other management action that has or may be taken.

### Derivative instruments and structured transactions

*Derivatives*

The Bank uses derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and lowers its cost of capital. The Bank uses several types of derivative products, including interest rate swaps, futures and options, to hedge interest rate risk exposure. Forward contracts, swaps and options are used to manage foreign currency risk exposures. Credit exposures in its lending and investment books are managed using credit default swaps. As a dealer, the Bank markets a range of derivatives to its customers, including interest rate, foreign exchange, equity, commodity and credit derivatives.

Market risk arising from derivatives transactions is subject to the control, reporting and analytical techniques noted above in the Trading activities section. Additional controls and analytical techniques are applied to address certain market-related risks that are unique to derivative products.

*Structured Transactions*

Structured transactions are specialized transactions that may involve combinations of cash, other financial assets and derivatives designed to meet the specific risk management or financial requirements of customers. These transactions are carefully evaluated by the Bank to identify and address the credit, market, legal, tax, reputational and other risks, and are subject to a cross-functional review and sign-off by trading management, Global Risk Management, Taxation, Finance and Legal departments. Large structured transactions are also subject to review by senior risk management committees and evaluated in accordance with the procedures described below in Reputational Risk.

The market risk in these transactions is usually minimal, and returns are earned by providing structuring expertise and by taking credit risk. Once executed, structured transactions are subject to the same ongoing credit reviews and market risk analysis as other types of derivatives transactions. This review and analysis includes careful monitoring of the quality of the reference assets, and ongoing valuation of the derivatives and reference assets.

## Liquidity Risk

**Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.**

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable the core businesses to continue to generate revenue, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee (LCO) provides senior management oversight of liquidity risk and meets weekly to review the Bank's liquidity profile.

The key elements of the liquidity risk framework are:

- Measurement and modeling – the Bank's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short-term horizons (cash gaps) and a minimum level of core liquidity.

- Reporting – Global Risk Management provides independent oversight of all significant liquidity risks, supporting the LCO with analysis, risk measurement, stress testing, monitoring and reporting.
- Stress testing – the Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry and Bank-specific disruptions on the Bank's liquidity position. Liquidity stress testing has many purposes including:
  - Helping the Bank to understand the potential behavior of various positions on its balance sheet in circumstances of stress; and
  - Based on this knowledge, facilitating the development of risk mitigation and contingency plans.
- The Bank's liquidity stress tests consider the effect of changes in funding assumptions, depositor behavior and the market value of liquid assets. The Bank also performs industry standard stress tests required by regulators and rating agencies. The stress test results are reviewed at senior levels of the organization and are considered in making liquidity management decisions.
- Contingency planning – the Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event. A contingency plan is maintained both at the parent level as well as for major subsidiaries.
- Funding diversification – the Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, term and geographic market.
- Core liquidity – the Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events. The Bank also maintains liquid assets to support its intra-day settlement obligations in payment, depository and clearing systems.

## Liquidity Profile

The Bank maintains large holdings of liquid assets to support its operations. These assets generally can be sold or pledged to meet the Banks' obligations. As at October 31, 2011 liquid assets were $162 billion or 28% of total assets, compared to $148 billion or 28% of total assets as at October 31, 2010. The mix of these assets between securities and other liquid assets, including cash and deposits with banks, was 65% and 35%, respectively (October 31, 2010 – 68% and 32%, respectively).

In the course of the Bank's day-to-day activities, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Securities may also be sold under repurchase agreements. As at October 31, 2011, total assets pledged or sold under repurchase agreements were $107 billion, compared to $96 billion as at October 31, 2010. The year over year change was largely due to an increase in assets sold under repurchase agreements, pledging activity to support the Bank's covered bond program and collateral related to other funding activities. In some over-the-counter derivative contracts, the Bank would be required to post additional collateral in the event its credit rating was downgraded. The Bank maintains access to sufficient collateral to meet its obligations in the event of a downgrade of its ratings by one or more of the rating agencies.

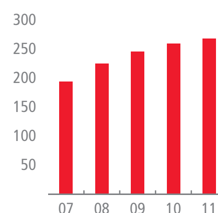
## Funding

The Bank ensures that its funding sources are well diversified. Funding source concentrations are regularly monitored and analyzed by type and by industry. The principal sources of funding are capital, core deposits from retail and commercial clients through the Canadian and international branch network, and wholesale funding. The Bank also securitizes mortgages through the Canada Mortgage Bonds program as an alternative source of funding, and for liquidity and asset/liability management purposes. To ensure that the Bank does not place undue reliance on a single entity as a funding source, the Bank maintains a limit on the amount of deposits it will accept from any one entity.

**T36** Liquidity

| As at October 31 ($ millions) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Canadian dollar liquid assets | | | | | |
| Cash and deposits with Bank of Canada | **$ 509** | $ 484 | $ 1,223 | $ 498 | $ 502 |
| Deposits with other banks | **2,345** | 2,558 | 1,371 | 1,654 | 4,152 |
| Securities | **79,429** | 79,086 | 81,613 | 46,558 | 53,429 |
| | **82,283** | 82,128 | 84,207 | 48,710 | 58,083 |
| Foreign currency liquid assets | | | | | |
| Cash and deposits with Bank of Canada | **10,053** | 7,150 | 6,170 | 3,064 | 4,503 |
| Deposits with other banks | **41,563** | 35,835 | 34,513 | 32,102 | 20,039 |
| Securities | **26,025** | 21,654 | 19,649 | 21,298 | 19,809 |
| Call and short loans | **1,708** | 1,498 | 1,538 | 1,087 | 874 |
| | **79,349** | 66,137 | 61,870 | 57,551 | 45,225 |
| Total liquid assets | | | | | |
| Cash and deposits with Bank of Canada | **10,562** | 7,634 | 7,393 | 3,562 | 5,005 |
| Deposits with other banks | **43,908** | 38,393 | 35,884 | 33,756 | 24,191 |
| Securities | **105,454** | 100,740 | 101,262 | 67,856 | 73,238 |
| Call and short loans | **1,708** | 1,498 | 1,538 | 1,087 | 874 |
| | **$ 161,632** | $ 148,265 | $ 146,077 | $ 106,261 | $ 103,308 |
| Liquid assets as a % of total assets | **28.1%** | 28.2% | 29.4% | 20.9% | 25.1% |

**C46** Core funds
*$ billions, as at October 31*



Core funds, represented by capital and core deposits of the Bank's retail and commercial clients, were $265 billion as at October 31, 2011, versus $256 billion last year (see Chart 46). This increase was attributable primarily to an increase in capital and higher balances of demand and notice deposits. As at October 31, 2011, the Bank's core funds represented 46% of total funding, versus 49% last year.

### Contractual Obligations

The Bank's contractual obligations include contracts and purchase obligations, including agreements to purchase goods and services, that are enforceable and legally binding on the Bank.

Table 37 provides aggregated information about the Bank's contractual obligations as at October 31, 2011, which affect the Bank's liquidity and capital resource needs.

The table excludes deposit liabilities (except term funding), pension and other retirement benefit obligations, lending commitments and other short-term financing arrangements which are discussed in Notes 10, 20 and 24, respectively, of the 2011 Consolidated Financial Statements.

The Bank prudently diversifies its wholesale funding activities by using a number of different funding programs to access the global financial markets and extend its maturity profile, as appropriate. In 2011, the Bank issued approximately $21 billion of senior term funding in the domestic, United States and other markets.

The Bank leases a large number of its branches, offices and other locations. The vast majority of these leases are for a term of five years, with an option to renew. The total cost of these leases, net of rental income from subleases, was $276 million in 2011 (2010 – $243 million). The increase of $33 million relates primarily to the acquisition of DundeeWealth and growth in Canadian and International service delivery platforms. Refer to Note 24 of the 2011 Consolidated Financial Statements.

Two major outsourcing contracts have been entered into by the Bank. The largest is a contract with IBM Canada entered into in 2001 to manage the Bank's domestic computer operations, including data centres, branches, Automated Banking Machines, and desktop computing environment. The contract was expanded in 2005 to also include the computer operations for the Caribbean, Central America, and Mexico. The contract for Canadian operations was renewed in 2007 and is now extended until 2013, co-terminus with Mexico, the Caribbean and Central America contracts.

The second is a three-year contract, with two optional five-year renewals, entered into in 2003 with Symcor Inc. to manage the Bank's cheque and bill payment processing, including associated statement and report printing activities across Canada. The final 5-year option has been exercised.

These outsourcing contracts are cancellable with notice.

### Capital Expenditures

Scotiabank has an ongoing program of capital investment to provide the necessary level of technology and real estate resources to service our customers and meet new product requirements. All major capital expenditures go through a rigorous review and approval process.

Total capital expenditures in 2011 are estimated to be $262 million, an increase of 25% from 2010. The increase is primarily in Technology, $43 million or 57%, due largely to the ongoing ABM Replacement initiative in Canada and equipment upgrades in our International Branch network.

## Operational risk

**Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk. It exists in some form in every Bank business and function. Operational risk can not only result in financial loss, but also regulatory sanctions and damage to the Bank's reputation. The Bank is very successful at managing operational risk with a view to safeguarding client assets and preserving shareholder value.**

The Bank has developed policies, processes and assessment methodologies to ensure that operational risk is appropriately identified and managed with effective controls. The governing principles of the Bank's operational risk management program include:

- The individual business lines being accountable for management and control of the significant operational risks to which they are exposed.
- An organization structure through which there is effective oversight and in which operational risk is managed to an established risk appetite, including:
  - The Board of Directors are responsible for sound corporate governance and approves the Bank's Operational Risk Management Policy;
  - A senior level Operational Risk Committee comprised of Heads of Business Lines and key control functions, and chaired by the Group Head and Chief Risk Officer. This Committee provides consistent, Bank-wide oversight of operational risk management.

**T37** Contractual obligations

| ($ millions) | Under 1 year | 1-3 years | 4-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Term funding | | | | | |
| Wholesale deposit notes | 12,321 | 16,465 | 8,609 | 2,039 | **39,434** |
| Euro medium term notes | 1,904 | 1,133 | 30 | 52 | **3,119** |
| Covered bonds | – | 3,482 | 4,374 | – | **7,856** |
| Subordinated debentures | – | 251 | – | 5,672 | **5,923** |
| Other long-term liabilities | 806 | 3,122 | 445 | 3,175 | **7,548** |
| Subtotal | 15,031 | 24,453 | 13,458 | 10,938 | **63,880** |
| Operating leases | 234 | 383 | 256 | 325 | **1,198** |
| Outsourcing obligations | 181 | 243 | 74 | – | **498** |
| Total | 15,446 | 25,079 | 13,788 | 11,263 | **65,576** |

– Executive management with clearly defined areas of responsibility;
– A central unit in Global Risk Management responsible for: developing and applying methods to identify, assess, and monitor operational risks; and reporting on risks as well as actual loss events;
– Independent specialist units responsible for developing methods to mitigate specific components of operational risk, including codifying policies and processes required to control those specific risks;
– Separation of duties between key functions; and,
– An independent internal audit department responsible for verifying that significant risks are identified and assessed, and for testing controls to ensure that overall risk is at an acceptable level.

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

- The Bank's risk and control self-assessment program, which is managed by Global Risk Management's central operational risk unit, includes formal reviews of significant operations and processes to identify and assess operational risks. Scenario analysis has been successfully introduced to risk assessments as a tool that provides a more forward looking view of key risks. Overall, this program provides a basis for management to ensure that controls are functioning effectively. Business line management attests to the accuracy of each assessment and develops action plans to mitigate risks if controls are not identified as effective. Results of these reviews are summarized and reported to executive management and the Board of Directors.
- The Bank's centralized operational loss event database, which is managed and maintained by the central operational risk unit, captures key information on operational losses. This data is analyzed, benchmarked against industry loss data and significant metrics, then reported to executive management and the Board of Directors to provide insight into operational risk exposures and trends.
- The Bank's Fraud Management Office, which identifies threats of financial crime, implements systems and processes to mitigate loss and reports on fraud loss activity to senior management.
- The Bank's monitoring of industry events, identifies significant losses incurred at other financial institutions and provides a reference for reviewing and assessing the Bank's own risk exposure.
- The compliance risk management program led by Group Compliance through an established network and associated processes that include: monitoring regulatory changes; conducting compliance risk assessments; implementing policies and procedures; training; monitoring and resolving issues; and reporting on the status of compliance and compliance controls to executive management, the Board of Directors, and regulators as required.
- Processes in each business line for evaluation of risk in new businesses and products.
- The Bank's business continuity management policy, which requires that all business units develop business continuity capabilities for their respective functions. The Bank's Business Continuity Management Department is responsible for governance and oversight of the Bank's business continuity, and monitors units to ensure compliance with these policies.
- The Bank's model risk policy, which provides the framework for model review and approval under the oversight of the Operational Risk Committee.
- The Bank's training programs, such as the mandatory Anti-Money Laundering and Information Security examinations which ensure employees are aware and equipped to safeguard our customers' and the Bank's assets.
- Risk mitigation programs, which use insurance policies to transfer the risk of high severity losses, where feasible and appropriate.

The Bank applies the Standardized Approach for calculating operational risk capital under the Basel II capital framework. Total capital is determined as the sum of capital for each of eight Basel defined business activities. The capital for each activity is the product of the relevant risk factor, as defined by Basel, applied to the gross income of each respective business activity. Progress is underway to prepare for the more sophisticated Advanced Measurement Approach (AMA), which is expected to be fully implemented in fiscal 2014. Under AMA, regulatory capital measurement will more directly reflect the Bank's operational risk environment.

## Reputational risk

**Reputational risk is the risk that negative publicity regarding Scotiabank's conduct, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.**

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Negative publicity and attendant reputational risk frequently arise as a by-product of some other kind of risk management control failure.

Reputational risk is managed and controlled throughout the Bank by codes of conduct, governance practices and risk management programs, policies, procedures and training. Many relevant checks and balances are outlined in greater detail under other risk management sections, particularly Operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Scotiabank Guidelines for Business Conduct, and in a manner that minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public, Corporate and Government Affairs and Compliance departments, and the Reputational Risk Committee, are particularly oriented to the management of reputational risk.

In providing credit, advice, or products to customers, or entering into associations, the Bank considers whether the transaction, relationship or association might give rise to reputational risk. The Bank has an established, Board-approved reputational risk policy, as well as policy and procedures for managing reputational and legal risk related to structured finance transactions. Global Risk Management plays a significant role in the identification and management of reputational risk related to credit underwriting. In addition, the Reputational Risk Committee is available to support Global Risk Management, as well as other risk management committees and business units, with their assessment of reputational risk associated with transactions, business initiatives, and products and services.

The Reputational Risk Committee considers a broad array of factors when assessing transactions, so that the Bank meets, and will be seen to meet, high ethical standards. These factors include the extent, and outcome, of legal and regulatory due diligence pertinent to the transaction; the economic intent of the transaction; the effect of the transaction on the transparency of a customer's financial reporting; the need for customer or public disclosure; conflicts of interest; fairness issues; and public perception.

The Committee may impose conditions on customer transactions, including customer disclosure requirements to promote transparency in financial reporting, so that transactions meet Bank standards. In the event the Committee recommends not proceeding with a transaction and the sponsor of the transaction wishes to proceed, the transaction is referred to the Risk Policy Committee.

## Environmental risk

Environmental risk refers to the possibility that environmental concerns involving the Scotiabank Group or its customers could affect the Bank's financial performance.

To safeguard the Bank and the interests of its stakeholders, Scotiabank has an environmental policy, which is approved by the Bank's Board of Directors. The policy guides day-to-day operations, lending practices, supplier agreements, the management of real estate holdings and external reporting practices. It is supplemented by specific policies and practices relating to individual business lines.

Environmental risks associated with the business operations of each borrower and any real property offered as security are considered in the Bank's credit evaluation procedures. This includes an environmental assessment where applicable, and commentary on climate change where it could have a material impact (including regulatory, physical or reputational impacts) on the borrower. Global Risk Management has primary responsibility for establishing the related policies, processes and standards associated with mitigating environmental risk in the Bank's lending activities. Decisions are taken in the context of the risk management framework discussed on page 63.

In the area of project finance, the revised Equator Principles have been integrated into the Bank's internal processes and procedures since 2006. These are environmental and social guidelines for project finance transactions with a capital cost of U.S. $10 million or higher, based on the policies of the International Finance Corporation, the private sector arm of the World Bank. The Equator Principles provide safeguards for sensitive projects to ensure protection of natural habitats and the rights of indigenous peoples, as well as safeguards against child and forced labour.

Environmental concerns also play a prominent role in shaping the Bank's real estate practices and purchasing decisions. The Real Estate Department adheres to an Environmental Compliance Policy to ensure responsible management of the Bank's real estate holdings. In addition, considerable recycling and resource management programs are in place in the Bank's corporate offices and branch networks. Internal tracking systems are in place with respect to energy use, greenhouse gas emissions (GHG) and paper consumption. A variety of reduction measures are in place for energy, paper and waste. In order to further reduce the Bank's environmental footprint, it has developed an internal Environmental Paper Policy and is in the process of developing and implementing more definitive management processes on energy.

To ensure it continues to operate in an environmentally responsible manner, the Bank monitors policy and legislative requirements through ongoing dialogue with government, industry and stakeholders in countries where it operates. Scotiabank has been meeting with environmental organizations, industry associations and socially responsible investment organizations with respect to the role that banks play to help address issues such as climate change, protection of biodiversity, promotion of sustainable forestry practices, and other environmental issues important to its customers and communities where it operates. The Bank has an ongoing process of reviewing its policies in these areas.

Scotiabank has a number of environmentally related products and services to meet demand and promote the "green" economy, including the Scotiabank Global Climate Change Fund, an EcoEnergy Financing program designed to support personal and small business customers who wish to install small-scale renewable energy projects, an Environmental Markets group, which assists corporate clients originate and trade carbon credits, and an eco-home renovation program, EcoLiving.

Scotiabank is also a signatory, participant and sponsor of the Carbon Disclosure Project in Canada, which provides corporate disclosure to the investment community on greenhouse gas emissions and climate change management. In 2010 Scotiabank was included on the Dow Jones Sustainability Index (DJSI)-(North America), an annual review that recognizes the world's financial, social and environmental corporate leaders. The Bank was also recognized as one of Canada's Green 30 by Maclean's and Canadian Business Magazine. For more information on Scotiabank's environmental policies and practices, please refer to:

- the Bank's annual Public Accountability Statement/Corporate Social Responsibility Report, which is also available online at www.scotiabank.com;
- the Environment section of Scotiabank's website at www.scotiabank.com/environment;
- the Bank's EcoLiving website at www.scotiabank.com/ecoliving; 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 110.

### Disclosure controls and procedures

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

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

### Internal control over financial reporting

Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. These controls include policies and procedures that:

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

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

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

### Changes in internal control over financial reporting

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

## Critical accounting estimates

The Bank's accounting policies are integral to understanding and interpreting the financial results reported in this annual report. Note 1 on pages 117 to 124 summarizes the significant accounting policies used in preparing the Bank's Consolidated Financial Statements. Certain of these policies require management to make estimates and subjective judgements that are difficult, complex, and often relate to matters that are inherently uncertain. The policies discussed below are considered to be particularly important to the presentation of the Bank's financial position and results of operations, because changes in the judgements and estimates could have a material impact on the Bank's Consolidated Financial Statements. These estimates are adjusted in the normal course of business to reflect changing underlying circumstances.

### Allowance for credit losses

The allowance for credit losses represents management's best estimate of the probable credit losses in the portfolio of deposits with other institutions, loans to borrowers, acceptances and other indirect credit commitments, such as letters of credit and guarantees. Management undertakes regular reviews of credit quality to assess the adequacy of the allowance for credit losses. This process requires the use of estimates and subjective judgements at many levels. These subjective judgements include identifying credits that are impaired, and considering factors specific to individual credits, as well as portfolio characteristics and risks. Changes to these estimates or use of other reasonable judgements and estimates could directly affect the provision for credit losses.

The allowance for credit losses is composed of specific and general, allowances.

Specific allowances are an estimate of probable incurred losses related to existing impaired loans. In establishing specific allowances applicable to individual credit exposures, management first forms a judgement as to whether a loan is impaired. Loan impairment is recognized when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Once a loan is determined to be impaired, management estimates its net realizable value by making judgements relating to the timing of future cash flow amounts, the fair value of any underlying security pledged as collateral, costs of realization, observable market prices, and expectations about the future prospects of the borrower and any guarantors.

Management estimates specific allowances for certain homogenous portfolios, including residential mortgages, credit card loans and most personal loans on a group basis. This involves estimating the probable losses inherent in the portfolio by using a formulaic method that considers recent loss experience.

Specific provisions were lower in 2011 than in 2010, driven primarily by net recoveries in Scotia Capital, which more than offset moderate increases in Canadian Banking and International Banking.

The general allowance is an estimate of probable incurred losses that are inherent in the portfolio of loans and loan commitments, but have not yet been specifically identified on an individual basis. Management establishes the general allowance through an assessment of quantitative and qualitative factors. Using an internally developed model, management arrives at an initial quantitative estimate of the general allowance based on numerous factors, including historical average default probabilities, loss given default rates and exposure at default factors. Material changes in any of these parameters or assumptions would affect the range of expected credit losses and, consequently, could affect the general allowance level. For example, if either the probability of default or the loss given default rates for the non-retail portfolio were independently increased or decreased by 10%, the model would indicate an increase or decrease to the quantitative estimate of approximately $62 million (2010 – $69 million). Senior management determines whether it is necessary to adjust the quantitative estimate for the general allowance to account for portfolio conditions not reflected in the historically based credit parameters used in the model.

A qualitative assessment of the general allowance is made based on observable data, such as: economic trends and business conditions, portfolio concentrations, risk migrations and recent trends in volumes and severity of delinquencies and a component for the imprecision inherent in the model and model parameters. Management reviews the general allowance quarterly to assess whether the allowance is at the appropriate level in relation to the size of the portfolio, inherent credit risks and trends in portfolio quality. From time to time, the Bank may establish a sectoral allowance for specific adverse events and changes in economic conditions. These allowances are for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowance. The level of the sectoral allowance considers the probability of default, loss given default and expected exposure at default.

The general allowance for credit losses as at October 31, 2011, was $1,352 million, a decrease of $58 million from a year earlier. The decrease was primarily attributable to improved credit quality. The general allowance amount is primarily attributable to business and government loans ($1,109 million), with the remainder allocated to personal and credit cards ($187 million) and residential mortgages ($56 million). As noted above, the specific allowance for credit losses for personal loans, credit cards and mortgages is formula-based and also reflects incurred but not yet identified losses.

### Fair value of financial instruments

All financial instruments are measured at fair value on initial recognition except certain related party transactions. Subsequent measurement of a financial instrument depends on its classification. Loans and receivables, certain securities and most financial liabilities are carried at amortized cost unless classified or designated as held for trading or available-for-sale at inception. All other financial instruments, including those designated as held-for-trading at inception, are carried at fair value.

Financial instruments in the Bank's trading portfolios are composed primarily of securities and derivatives. These trading instruments are carried at fair value on the Consolidated Balance Sheet, with changes in the fair values of trading instruments included in the Consolidated Statement of Income.

Securities designated as available-for-sale are recorded at fair value on the Consolidated Balance Sheet. Equity securities which do not have a quoted market price in an active market are measured at cost. The unrealized gains and losses as a result of changes in the fair values of available-for-sale securities are included in the Consolidated Statement of Comprehensive Income.

Derivatives used for asset/liability management are recorded at fair value on the Consolidated Balance Sheet. All changes in these derivative fair values other than those designated as cash flow hedges or net investment hedges are recorded in the Consolidated Statement of Income, while the latter flows through other comprehensive income.

Fair value is defined as the amount of consideration that would be agreed upon in an arms-length transaction, other than a forced sale or liquidation, between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument is used subject to appropriate adjustments, supplemented as required with internal valuation models. Where quoted market prices are not available, the quoted price of similar financial instruments (i.e. with similar characteristics and risk profile) or internal models with observable market-based inputs are used to estimate the fair value.

Fair values are calculated using quoted market prices or observable market inputs for models and require minimal judgement by management. Greater subjectivity is required when making valuation adjustments for financial instruments in inactive markets or when using models where observable parameters do not exist.

Trading securities, available-for-sale securities, and obligations related to securities sold short are normally valued using quoted market prices, including prices obtained from external fund managers and dealers.

To determine the fair value of financial instruments in a less active or inactive market where market prices are not readily observable due to low trading volumes or lack of recent trades, appropriate adjustments are made to available indicative prices to reflect the lack of liquidity in the market for the instruments. Where quoted prices or observable market data is not readily available, for example due to less liquid markets, management's judgement on valuation inputs is necessary to determine fair value.

Most derivatives are not exchange traded and are therefore normally valued using models which incorporate significant observable market parameters. Securities that are fair valued using models include certain types of asset-backed securities. Market inputs used for the fair value determination include observable interest rates, foreign exchange rates, credit spreads, equity prices, commodity prices and option volatilities.

Certain derivative and other financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgement. Where significant unobservable market data is used as a key input into the valuation of certain derivatives, the inception profit on those derivatives is deferred over the life of the derivative contract, or until the valuation inputs become observable. This amount was not material in fiscal 2011 and 2010.

Management also applies judgement in the selection of internal valuation models for financial assets and financial liabilities carried at fair value in trading and non-trading portfolios. This includes consideration of credit risk, liquidity and ongoing direct costs in the determination of the fair value of derivatives. Management therefore exercises judgement when establishing market valuation adjustments that would be required in order to arrive at the fair value. Valuation adjustments recorded against the fair value of financial assets and financial liabilities totaled $568 million as at October 31, 2011 (2010 – $441 million), net of any write-offs. These valuation adjustments are mainly due to counterparty credit risk considerations for derivative transactions.

Uncertainty in the estimates used in the models can affect the fair value and financial results recorded. Historically, the impact of any change in these estimates was not expected to be significant; however, in the recent volatile market conditions where significant and rapid changes in observable model inputs can occur, greater volatility in fair values derived from these models is possible.

The Financial Instruments Disclosure Standard requires expanded disclosures of financial instruments and in particular with classification of all financial instruments carried at fair value into a hierarchy based on the determination of fair value. The valuation hierarchy is as follows:

- Level 1 – fair value is based on unadjusted quoted prices in active markets for identical instruments,

- Level 2 – fair value is based on models using inputs other than quoted prices for the instruments, or
- Level 3 – fair value is based on models using inputs that are not based on observable market data.

The Bank's assets and liabilities which are carried at fair value as classified by the valuation hierarchy are reflected in Note 26 on pages 159 to 161. The percentage of each asset and liability category by fair value hierarchy level are outlined as follows:

Fair value hierarchy of financial instruments

| | Assets | | | Liabilities | |
|---|---|---|---|---|---|
| Fair value hierarchy | Trading securities | Available-for-sale securities | Derivatives | Obligations related to securities sold short | Derivatives |
| Level 1 | 66% | 28% | 3% | 66% | 4% |
| Level 2 | 31% | 69% | 96% | 34% | 92% |
| Level 3 | 3% | 3% | 1% | – | 4% |
| | 100% | 100% | 100% | 100% | 100% |

## Other-than-temporary impairment

Available-for-sale securities, except for equity securities which do not have a quoted market price in an active market, are recorded at fair value on the balance sheet. Any unrealized gains and losses on these available-for-sale securities are recorded in other comprehensive income until realized, at which time they are recorded in the Consolidated Statement of Income.

Management reviews the fair value of available-for-sale securities each quarter to determine whether a decline in fair value compared to cost or amortized cost is other-than-temporary. To assess whether an other than temporary impairment has occurred, management must make certain judgements and estimates, and consider factors such as the length of time and extent to which the fair value of a security has been below its cost or amortized cost, prospects for recovery in fair value, the issuer's financial condition and future prospects, and the Bank's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. Once management has determined that the security has experienced an other-than-temporary decline in value, the carrying value of the security is written down to its estimated fair value. To estimate fair value, management considers all of the data gathered during the impairment evaluation process, as well as the market liquidity and the Bank's plans for the security. Other-than-temporary impairment charges are recorded in net gains on securities, other than trading in the Consolidated Statement of Income.

As at October 31, 2011, the gross unrealized gains on available-for-sale securities recorded in accumulated other comprehensive income were $1,681 million (2010 – $1,687 million), and the gross unrealized losses were $426 million (2010 – $270 million). Net unrealized gains were therefore $1,255 million (2010 – $1,417 million) before related derivative and other hedge amounts. The net unrealized gains after related derivative and other hedge amounts were $1,028 million (2010 – $1,189 million).

At October 31, 2011, the unrealized loss recorded in accumulated other comprehensive income relating to securities in an unrealized loss position for more than 12 months was $174 million (2010 – $211 million). This unrealized loss was comprised of $124 million (2010 – $157 million) in debt securities, $43 million (2010 – $37 million) related to preferred shares and $7 million (2010 – $17 million) related to equity securities. The unrealized losses on the debt securities arose primarily from changes in interest rates and credit spreads. Based on a number of considerations, including underlying credit of the issuers, the Bank expects that future interest and principal payments will continue to be received on a timely basis in accordance with the contractual terms of the security.

The Bank also holds a diversified portfolio of available-for-sale equities. Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature. The total fair value of the securities with continuous unrealized losses of more than 12 months was $1,921 million as at October 31, 2011, (2010 – $3,064 million).

## Pensions and other employee future benefits

The Bank sponsors various pension and other future benefit plans for eligible employees in Canada, the United States, Mexico and other international operations. The pension benefits are generally based on years of service and average earnings at retirement. Other future benefits generally include post-retirement health care, dental care and life insurance, along with post-employment benefits such as long-term disability.

Employee future benefit expense and the related benefit obligation are calculated using actuarial methods and certain actuarial assumptions. Most of these assumptions are based on management's best estimate and are reviewed and approved annually. The key assumptions include the long-term rate of investment return on plan assets, future compensation, health care costs, employee turnover, retirement age and mortality. When making these estimates, management considers expectations of future economic trends and business conditions, including inflation rates, as well as other factors. Management also reviews historical investment returns, salary increases and health care costs. Another important assumption is the discount rate used for measuring the benefit obligation which is generally prescribed to be equal to the current yield on long term, high-quality corporate bonds with durations similar to the benefit obligation. The management assumptions with the greatest potential impact are the assumed long-term rate of return on assets and the discount rate used for measuring the benefit obligation. If the assumed long-term rate of return on assets was 1% lower (higher), the benefit expense for 2011 would have been $53 million higher (lower). If the assumed discount rate was 1% lower (higher), the benefit expense for 2011 would have been $110 million higher (lower).

The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefit plan. Based on these measurement dates, the Bank reported a deficit of $57 million in its principal pension plans as disclosed in Note 20 to the Consolidated Financial Statements on pages 144 to 146. There has been a decline in the funded status of the plans since 2010 due to a sharp reduction in prescribed discount rates in most countries resulting in higher benefit obligations. In addition, plan asset values are still below their pre-2008 levels.

The decline in the funded status of the plans will impact the benefit expense for fiscal year 2011 and possibly future years.

Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, consequently increasing or decreasing the benefit expense for future years. In accordance with GAAP, this difference is not recognized immediately as income or expense, but rather is amortized into income over future periods.

Management determines whether the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of each year. Any unrecognized net actuarial gain or loss above this 10% threshold is generally amortized into income over the estimated average remaining service period of

active employees ranging from 10 to 20 years for the Bank's principal pension plans, and 8 to 27 years for the Bank's principal other benefit plans.

Note 20 on pages 144 to 146 of the 2011 Consolidated Financial Statements contains details of the Bank's employee future benefit plans, such as the disclosure of pension and other future benefit amounts, management's key assumptions, and a sensitivity analysis of changes in these assumptions on the employee future benefit obligation and expense.

### Corporate income taxes

Management exercises judgement in determining the provision for income taxes and future income tax assets and liabilities. The provision is based on management's expectations regarding the income tax consequences of transactions and events during the period. Management interprets the tax legislation for each jurisdiction in which the Bank operates and makes assumptions about the expected timing of the reversal of future assets and liabilities. If management's interpretations of the legislation differ from those of the tax authorities or if the actual timing of the reversals of the future assets and liabilities is not as anticipated, the provision for income taxes could increase or decrease in future periods. The Bank records a valuation allowance if management assesses it is likely that the future income tax assets will not be realized prior to expiration.

Total gross future tax assets related to subsidiaries' unused income tax losses from operations arising in prior years were $287 million as at October 31, 2011 (2010 – $347 million). These future tax assets have been reduced by a valuation allowance of $19 million (2010 – $1 million) due to uncertainty about the utilization of these losses. In addition, a future tax asset of $70 million (2010 - $70 million) related to a capital loss on disposal of subsidiary operations in a prior year has been reduced by a valuation allowance of $70 million (2010 – nil). Furthermore, one of the Bank's foreign subsidiaries has a valuation allowance of $316 million (2010 – $316 million) related to certain loan loss allowances available to be applied against future taxable earnings. If and when there is greater certainty of realizing these future tax assets, the Bank will adjust the valuation allowances. The Bank's total net future income tax asset was $992 million as at October 31, 2011 (2010 – $1,775 million). Note 19 on pages 142 to 143 of the 2011 Consolidated Financial Statements contains further details with respect to the Bank's provisions for income taxes.

### Variable interest entities

In the normal course of business, the Bank enters into arrangements with variable interest entities (VIEs) on behalf of its customers and for its own purposes. These VIEs can be generally categorized as multi-seller commercial paper conduits, funding vehicles, structured finance entities and collateralized debt obligation entities. Further details are provided on pages 47 to 50 in the off-balance sheet arrangements section.

Management is required to exercise judgement to determine whether a VIE should be consolidated. This evaluation involves understanding the arrangements, determining whether the entity is considered a VIE under the accounting rules, and determining the Bank's variable interests in the VIE. These interests are then compared to those of the unrelated outside parties to identify the holder that is exposed to the majority of the variability in the VIE's expected losses, expected residual returns, or both, to determine whether the Bank should consolidate the VIE. The comparison uses both qualitative and quantitative analytical techniques and use of models and involves the use of a number of assumptions about the business environment in which the VIE operates and the amount and timing of future cash flows.

Management is required to exercise judgement to determine if a primary beneficiary reconsideration event has occurred. In applying the guidance under Canadian GAAP, the Bank considers the following to be reconsideration events for VIEs where the Bank has a variable interest: changes to the VIE's governing documents or contractual arrangements; the primary beneficiary disposing some or all of its variable interest to unrelated parties; or new variable interests issued to parties other than the primary beneficiary.

During 2011, there were no reconsideration events that would have required the Bank to re-assess the primary beneficiary of its multi-seller conduit VIEs.

As described in Note 6 to the Consolidated Financial Statements (on page 130) and in the discussion on off-balance sheet arrangements (starting on pages 47 to 50), the Bank is not the primary beneficiary of the three multi-seller asset-backed commercial paper (ABCP) conduits that it sponsors and is not required to consolidate them on the Bank's balance sheet.

In the future, if the Bank were to become the primary beneficiary of these three Bank-sponsored multi-seller ABCP conduits and consolidate them on the Bank's balance sheet, based on the values as at October 31, 2011, it would result in an increase in the Bank's reported assets of approximately $5 billion, and a reduction in capital ratios of approximately 10 to 15 basis points.

### Goodwill

Under GAAP, goodwill is not amortized but assessed for impairment on an annual basis at the reporting unit level, or more frequently if an event or change in circumstances indicates the asset might be impaired. Goodwill is assessed for impairment by comparing the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, no further testing is required. If the fair value is less than the carrying amount of the reporting unit, the amount of impairment loss is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities.

The Bank determines its reporting units' fair values from internally developed valuation models that consider factors such as normalized earnings, projected earnings, and price earnings multiples. Management judgement is required in estimating the fair value of reporting units and imprecision in any assumptions and estimates used in the fair value calculations could influence the determination of goodwill impairment. Management believes the assumptions and estimates used are reasonable and supportable in the current environment.

Based on the assessment approach described above, the Bank did not record any goodwill impairment losses for any of its seven reporting units in 2011.

### Contingent liabilities

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in, or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of claimants. According to GAAP, the Bank should accrue for a loss if, in management's opinion, it is likely that a future event will confirm a liability existed at the balance sheet date and the amount of loss can be reasonably estimated.

In some cases, it may not be possible to determine whether a liability has been incurred or to reasonably estimate the amount of loss until the case is closer to resolution. In these instances, no accrual can be

made until that time. If it can be determined that a liability existed as at the balance sheet date, but a reasonable estimate involves a range within which a particular amount appears to be a better estimate, that amount would be accrued. If no such better estimate within a range exists, the Bank is required to accrue the minimum amount in the range. On a regular basis, management and internal and external experts are involved in assessing the adequacy of the Bank's contingent loss accrual. Changes in these assessments may lead to changes in litigation accruals.

While there is inherent difficulty in predicting the outcome of such matters, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the Bank's consolidated financial position, or results of operations.

## Changes in accounting policies

### Current year

#### *Business combinations, Consolidated Financial Statements and non-controlling interests*

In January 2009, the CICA issued new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests. These standards are aligned with International Financial Reporting Standards (IFRS) and are effective for periods beginning on or after January 1, 2011, with earlier adoption permitted. If an entity elects to early adopt, all three standards are required to be adopted concurrently.

The business combination standard addresses the valuation of the identified assets and liabilities acquired in a business combination and the date at which the valuations should be determined. The other two standards are revised to ensure that the requirements embedded in the business combination standards are applied appropriately to the preparation of Consolidated Financial Statements and the accounting for non-controlling interests after the acquisition date.

The Bank to early adopted all three standards effective November 1, 2010, and all business acquisitions that occurred from November 1, 2010 have been accounted for under the revised standards.

The key principle underlying the business combinations standard is that all acquisitions be measured at fair value on the acquisition date. The key changes in the standards are:

- The acquisition accounting is at fair value (under prior GAAP only the Bank's proportionate share of fair value adjustments were accounted for);
- Non-controlling interests are measured at fair value (may exclude the proportionate share of goodwill) and treated as equity;
- Acquisition-related costs and restructuring costs are expensed as incurred while prior GAAP permitted some costs to be set up at acquisition date;
- Contingent consideration and other contingent liabilities, if any, are recorded at fair value on acquisition and subsequent changes in fair value are recorded in income;
- When the purchase consideration is in the form of equity shares of the acquirer, they are measured at fair value at the acquisition date, rather than the prior GAAP requirement which is the announcement date; and
- Step-acquisitions are accounted for at fair value allowing for a gain/loss to be recognized in income on the date of the transaction due to the revaluation of the original investment.

Application of the non-controlling interests standard in 2011 resulted in a reclassification of non-controlling interests. The reclassifications relating to non-controlling interests were as follows:

- Non-controlling interests have been reclassified from liabilities to equity in the Consolidated Balance Sheet.
- Non-controlling interests' portion of income is no longer a deduction when calculating the net income in the Consolidated Statement of Income. Instead, net income is apportioned between the Bank's equity holders and the non-controlling interests.
- Prior period information has been reclassified to conform with current period presentation.

With respect to 2011 Consolidated Financial Statements, the adoption of these new Canadian accounting standards resulted in a net gain of $286 million being recorded in the Consolidated Statement of Income. The gain arose substantially from accounting for the Bank's investment in DundeeWealth. The additional investment was considered a step-acquisition and accounted for on a fair value basis resulting in a gain of $260 million from the revaluation of the Bank's original 19% investment in DundeeWealth.

The remaining $26 million gain related to the acquisition accounting for a recent acquisition which was purchased at a price lower than fair value. The new standards require negative goodwill to be recognized in income without first reducing non-monetary assets, resulting in a higher gain in income under the new standards.

Under prior Canadian GAAP, $26 million would have been recorded as negative goodwill. With the change, the total negative goodwill recognized for the acquisition was $52 million.

The adoption of these new accounting standards resulted in additional purchase consideration of approximately $350 million on the acquisition of DundeeWealth. The increase was due primarily to the following:

- The gain from the revaluation of the Bank's original investment is considered part of the purchase consideration; and
- The common shares issued by the Bank as consideration for the acquisition were valued at closing date price versus announcement date price as per prior GAAP (incremental $110 million).

### Prior year

There were no changes in accounting standards in 2010 that affected financial statement reporting.

### Prior to November 1, 2009

#### *Classification and impairment of financial assets*

In August 2009, the CICA amended Section 3855, Financial Instruments – Recognition and Measurement, to harmonize classification and related impairment accounting requirements of Canadian GAAP with International Financial Reporting Standards (IFRS). The amendments allow certain debt securities not quoted in an active market to be classified as loans and measured at amortized cost. The Bank still has the ability to classify these instruments as available-for-sale, in which case they are measured at fair value with unrealized gains and losses recorded through other comprehensive income. The amendments also allow the reversal of impairment charges for debt securities classified as available-for-sale on the

occurrence of specific events. Impairment charges for debt securities classified as loans are recorded as provisions for credit losses. As a result of this change, the Bank reclassified certain securities not quoted in an active market with carrying value of $9,447 million to loans. This reclassification resulted in reduction of after-tax accumulated other comprehensive loss of $595 million. Details of this change in accounting policy are included in Note 1 to the Consolidated Financial Statements on page 117.

## Future Accounting Changes

### Transition to International Financial Reporting Standards (IFRS)

Canadian publicly accountable enterprises are required to adopt IFRS for fiscal years beginning on or after January 1, 2011. For the Bank, IFRS is effective for interim and annual periods commencing November 1, 2011 (adoption date), and includes the preparation and reporting of one year of comparative figures, including an opening balance sheet as at November 1, 2010 (transition date).

In order to prepare for the transition to IFRS, the Bank set up a significant project, implemented a project governance structure and developed an implementation plan which consisted of three phases: (i) planning and governance; (ii) review and detailed assessment; and (iii) design, development and implementation. The Bank has substantially completed all stages in all critical areas.

## Key elements of the Bank's IFRS changeover plan

The Bank's IFRS transition project is substantially completed and the current focus is on the finalization of the 2011 quarterly comparative results under IFRS. The following summarizes the Bank's status on key activities and milestones achieved.

### Financial statement presentation

- Detailed assessments of accounting differences between Canadian GAAP and IFRS accounting policies applicable to the Bank are complete.
- The Bank's IFRS 1 transition elections and accounting policy choices have been assessed, selected and approved.
- The quantification and preparation of the IFRS opening balance sheet is complete. Refer to the reconciliation of Canadian GAAP to IFRS on page 86 for details.
- The quantification and preparation of the IFRS comparative year quarterly results and note disclosures are close to finalization.
- The format of the annual and interim IFRS financial statements including note disclosures is substantially complete. The statements and notes may evolve as the Bank continues to assess best practices and industry views.

### Training and communication

- A global training strategy for IFRS was developed, approved and implemented.
- Training programs for Finance employees and other key stakeholders, including the Board of Directors and senior management, were provided.
- Training provided to credit/loan officers across the organization was conducted through various channels, and has been increasingly focused on specialized subjects.
- External communication was provided through the quarterly reports.
- An industry-wide education session on the impact of IFRS for equity analysts and rating agencies was held in Q1 2011 through the Canadian Bankers Association.

### Information technology systems

- A solution for the capture of 2011 comparative year financial information (including IFRS opening balance sheet) was developed and implemented.
- The Bank did not identify the need for any other significant modifications to its systems as a result of IFRS changes.

### Business and process activities

- Process changes have been substantially implemented as required to address the impact on financial reporting, and on other areas such as the Bank's performance measurement processes, including planning and budgeting, and capital management. None of these changes have been assessed to be material as they are not pervasive or systematic and have followed the Bank's existing change identification and management processes.

### Control environment

- The Bank did not identify any material changes in internal controls over financial reporting (ICFR) and disclosure controls and procedures (DC&P) as a result of IFRS. No changes have been identified that may have a pervasive or systematic impact to polices, processes and systems. Any enhancements to policies, processes and systems were assessed and documented prior to implementation.

## Key differences between Canadian GAAP and IFRS

The key areas of differences between Canadian GAAP and IFRS that impacted the Bank were identified as follows:

### Consolidation

Under IFRS, an entity (including a special purpose entity (SPE)) is consolidated based solely on control, which is evidenced by the power to govern the financial and operating policies of an entity to obtain benefit. When assessing control under IFRS, all relevant factors are considered, including qualitative and quantitative aspects.

Canadian GAAP determines consolidation of an entity using two different frameworks: the variable interest entity (VIE) and voting control models. The consolidation of a VIE under Canadian GAAP is based on whether the Bank is exposed to the majority of the VIE's expected losses or residual returns, or both and considered to be the primary beneficiary.

The differences in the criteria for consolidation between IFRS and Canadian GAAP have resulted in certain SPEs being consolidated under IFRS that were not previously consolidated under Canadian GAAP.

### Derecognition

Canadian GAAP uses a control-based model to assess derecognition, while IFRS primarily focuses on whether risks and rewards have been substantially transferred. As a result of the differences in the derecognition criteria between IFRS and Canadian GAAP, the Bank's insured residential mortgage securitizations through the Canadian Government's Canada Mortgage Bond (CMB) Programs do not meet the derecognition criteria under IFRS. Additionally, mortgages securitized and retained as mortgage-backed securities (MBS), currently classified as available-for-sale (AFS) on the Bank's balance sheet under Canadian GAAP, would be reclassified to residential mortgages under IFRS.

### Employee benefits

IFRS requires an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses, subsequent to the transition date. Under IFRS, actuarial gains and losses may either be:

- Deferred and amortized, subject to certain provisions (corridor approach);
- Immediately recognized in profit or loss; or
- Immediately recognized in other comprehensive income without subsequent recycling to income.

Under current Canadian GAAP, the Bank follows the corridor approach in recognizing actuarial gains and losses under its defined benefit plans. The Bank has finalized its decision under IFRS to adopt the corridor approach.

Furthermore, under IFRS, the defined benefit obligation and plan assets are measured at the balance sheet date while under Canadian GAAP, the Bank applied a measurement date of two or three months prior to the financial reporting date. IFRS also requires the use of fair value for determining the expected return on plan assets. The Bank used a market-related value under Canadian GAAP.

IFRS will result in different values for plan assets and benefit obligations due to changes in actuarial assumptions applicable for the different measurement dates. In addition the use of fair value versus market-related value will also result in different plan asset values. Plan asset values and benefit obligations impact future employee benefit expenses.

### The effects of changes in foreign exchange rates

IFRS requires that the functional currency for each foreign operation be determined based on the primary economic environment in which the entity operates. IFRS distinguishes primary factors to be considered in determining the functional currency of foreign operations while Canadian GAAP does not place any priority on any factors for consideration. This has resulted in a change in functional currency of certain subsidiaries on transition to IFRS.

### Share-based payments

IFRS requires cash-settled (i.e., liability-classified) awards to be remeasured at each reporting date based on changes in fair value of the liability as compared to intrinsic value under Canadian GAAP. This results in measurement differences between IFRS and Canadian GAAP. Furthermore, under IFRS, forfeitures are required to be estimated on the grant date and included in the measurement of the liability. However, under Canadian GAAP, forfeitures may be recognized either as they occur, or estimated on initial recognition. The Bank currently recognizes forfeitures as they occur.

### Impairment of goodwill

IFRS uses a one-step approach for impairment testing of non-financial assets by comparing the asset's carrying value to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell, and value in use. Canadian GAAP however, uses a two-step approach for impairment testing: first comparing an asset's carrying value with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing the asset's carrying value with its fair value.

IFRS requires that goodwill be allocated and tested for impairment at the level of cash generating unit (CGU) or group of CGUs. Under IFRS, each CGU or group of CGUs to which goodwill is allocated should represent the lowest level within the entity at which goodwill is monitored for internal management purposes. The Bank, based on its analysis, has concluded that under IFRS the level at which goodwill is tested is the same as under Canadian GAAP. Goodwill has been tested for impairment upon transition to IFRS on November 1, 2010 and no impairment was determined.

The impact of these changes on the Bank's financial position at November 1, 2010 is reflected in the opening equity and balance sheet reconciliation on pages 85 to 89.

## Future changes in IFRS standards

The Bank actively monitors developments and changes in standards from the IASB and the Canadian Accounting Standards Board (AcSB), as well as regulatory requirements from the Canadian Securities Administrators and OSFI. The IASB recently issued the following revised standards and amendments to existing standards which will impact the Bank beginning November 1, 2013:

– IFRS 10, *Consolidated Financial Statements,*
– IFRS 11, *Joint Arrangements,*
– IFRS 12, *Disclosure of Interests in Other Entities,*
– IFRS 13, *Fair Value Measurement*,
– IAS 19, *Employee Benefits,*
– IAS 27, *Separate Financial Statements*, and
– IAS 28, *Investments in Associates and Joint Ventures.*

The Bank is not permitted to early adopt any of the above standards or amendments per the OSFI Advisory issued in October 2011. The impact of these future changes in IFRS standards has not been determined. The IASB issued amendments to IAS 1, *Presentation of Financial Statements* which would impact the Bank beginning November 1, 2012; however, amendments to IAS 1 affect presentation only with no financial impact.

In a recent exposure draft issued, the IASB is proposing to postpone the mandatory application of IFRS 9, *Financial Instruments* from fiscal years beginning after January 1, 2013 to fiscal years beginning after January 1, 2015. The proposed change will therefore impact the Bank beginning fiscal 2016. Additionally, the IASB has published an exposure draft on Investment Entities whereby entities that meet the definition of an Investment Entity would be required to apply fair value accounting for their investments. This exemption is not available to the parent company unless it also meets the definition of an Investment Entity.

The IASB also expects to finalize changes to standards on hedge accounting (excluding portfolio hedging) and offsetting of financial assets as well as issue a revised exposure draft on impairment of financial assets by the end of 2011. The proposed implementation dates are currently not known.

## Impact of key differences at November 1, 2010

The impact of the adoption of IFRS on the Bank's equity as at November 1, 2010 is reflected below:

| | Total equity attributable to equity holders of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As at November 1, 2010 ($ millions) | Common shares | Retained earnings | AOCI | Other reserves | Preferred shares | Capital instruments | NCI | Total equity |
| **Total shareholders' equity - Canadian GAAP** | $5,750 | $21,932 | $(4,051) | $25 | $3,975 | $ – | $579 | **$28,210** |
| Adjustments under IFRS | | | | | | | | |
| IFRS 1 | – | (5,798) | 4,164 | – | – | – | (6) | **(1,640)** |
| Consolidation | – | (270) | 35 | – | – | 956 | – | **721** |
| Financial instruments | – | 6 | 180 | – | – | – | – | **186** |
| Employee benefits | – | (178) | – | – | – | – | (12) | **(190)** |
| Business combinations | – | (43) | – | – | – | – | (1) | **(44)** |
| Other | – | 35 | (59) | – | – | – | (1) | **(25)** |
| Subtotal – Adjustments under IFRS | $ – | $ (6,248) | $4,320 | $ – | $ – | $956 | $ (20) | **$ (992)** |
| **Total shareholders' equity – IFRS** | **$5,750** | **$15,684** | **$ 269** | **$25** | **$3,975** | **$956** | **$559** | **$27,218** |

Refer to pages 87 to 89 for explanatory notes.
AOCI = Accumulated other comprehensive income
NCI = Non-controlling interests

## Reconciliation of Canadian GAAP Balance Sheet to IFRS as at November 1, 2010

The Consolidated Statement of Financial Position presented on page 86 has been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). Previously, the Consolidated Financial Statements were prepared in accordance with Canadian GAAP. The following notes and tables present reconciliations and provide explanations of how the transition to IFRS has impacted the Bank's financial position as at November 1, 2010.

The reconciliation is presented in two steps on the following table.

Step 1 changes the presentation from Canadian GAAP to IFRS using the Canadian GAAP amounts.

The change in presentation for the Consolidated Statement of Financial Position is to reflect the assets and liabilities in order of liquidity, versus the product-based categorization used for Canadian GAAP. There are no changes in values.

Step 2 reflects the reclassification and remeasurement adjustments to the Canadian GAAP amounts by IFRS standard to arrive at the IFRS financial statements.

## Reconciliation of Canadian GAAP Balance Sheet to IFRS as at November 1, 2010

($ millions)

| | Step 1 | | | | | Step 2 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Changes in presentation | | | | | | | | | | | |
| Canadian GAAP presentation | Canadian GAAP balance | From | To | Canadian GAAP balance under IFRS presentation | IFRS presentation | IFRS 1 - first-time adoption of IFRS (1) | Consolidation (2) | Financial instruments (3) | Employee benefits (4) | Business combinations (5) | Other (6) | IFRS |
| Assets | | | | | Assets | | | | | | | |
| Cash resources | $ 39,530 | $ – | $ – | $ 39,530 | Cash and deposits with banks | $ 701 | $ – | $ – | $ – | $ – | $ – | $ 40,231 |
| Precious metals | 6,497 | – | – | 6,497 | Precious metals | – | – | – | – | – | – | 6,497 |
| Securities | | | | | Trading assets | | | | | | | |
| Trading | 64,684 | (2,764)(a) | – | 61,920 | Securities | – | 67 | – | – | – | – | 61,987 |
| Available-for-sale | 47,228 | (47,228)(b) | – | – | | | | | | | | |
| Equity accounted investments | 4,651 | (4,651)(c) | – | – | | | | | | | | |
| | | | 9,329(d) | 9,329 | Loans | 2,098 | – | – | – | – | – | 11,427 |
| | | | 2,764(a) | | | | | | | | | |
| | | | 2,098(d) | | | | | | | | | |
| | | | 4,862 | 4,862 | Financial assets designated at fair value through profit or loss | (4,039) | – | – | – | – | – | 823 |
| Securities purchased under resale agreements | 27,920 | – | – | 27,920 | Securities purchased under resale agreements | – | – | – | – | – | – | 27,920 |
| | | | 26,852(e) | 26,852 | Derivative financial instruments | 9 | 47 | – | – | – | – | 26,908 |
| | | | 47,228(b) | 47,228 | Financial investments | (16,395) | 304 | 244 | – | – | – | 31,381 |
| Loans | | | | | Loans to customers | | | | | | | |
| Residential mortgages | 120,482 | – | – | 120,482 | Residential mortgages | 31,844 | – | – | – | (2) | – | 152,324 |
| Personal and credit cards | 62,548 | – | – | 62,548 | Personal and credit cards | – | 983 | – | – | – | – | 63,531 |
| Business and government loans | 103,981 | (11,427)(d) | – | 92,554 | Business and government loans | 813 | 1,444 | – | – | – | – | 94,811 |
| Allowance for credit losses | 2,787 | – | – | 2,787 | Allowance for credit losses | – | – | (157) | – | – | – | 2,630 |
| Derivative instruments | 26,852 | (26,852)(e) | – | – | | | | | | | | |
| | | | 4,651(c) | 4,651 | Investments in associates and joint ventures | – | (37) | – | – | – | 21 | 4,635 |
| | | | 2,219(f) | 2,219 | Deferred tax assets | 567 | 176 | (61) | 58 | 4 | 13 | 2,976 |
| Other assets | 25,071 | (2,219)(f) | – | 22,852 | Other assets | (1,380) | (279) | 8 | (3) | (4) | (45) | 21,149 |
| Total assets | $526,657 | $(95,141) | $95,141 | $526,657 | Total assets | $ 14,218 | $2,705 | $ 348 | $ 55 | $ (2) | $(11) | $543,970 |
| Liabilities and shareholders' equity | | | | | Liabilities and equity | | | | | | | |
| Deposits | | | | | Deposits | | | | | | | |
| Personal, Business and government | $339,537 | $ (2)(g) | $ – | $339,535 | Deposits from customers | $ 23,661 | $ (997) | $ – | $ – | $ – | $ – | $362,199 |
| Banks | 22,113 | – | – | 22,113 | Deposits from banks | – | – | – | – | – | – | 22,113 |
| Derivative instruments | 31,990 | – | – | 31,990 | Derivative financial instruments | (552) | – | – | – | – | – | 31,438 |
| Obligations related to securities sold under repurchase agreements | 40,286 | – | – | 40,286 | Obligations related to securities sold under repurchase agreements | (7,498) | – | – | – | – | – | 32,788 |
| | | | 445(h) | 445 | Deferred tax liabilities | (6) | – | 5 | 1 | (1) | – | 444 |
| Other liabilities | 64,521 | (445)(h) | 2(g) | 64,078 | Other liabilities | 253 | 2,981 | 157 | 244 | 43 | 14 | 67,770 |
| Shareholders' equity | | | | | Equity | | | | | | | |
| Retained earnings | 21,932 | – | – | 21,932 | Retained earnings | (5,798) | (270) | 6 | (178) | (43) | 35 | 15,684 |
| Accumulated other comprehensive income (loss) | (4,051) | – | – | (4,051) | Accumulated other comprehensive income (loss) | 4,164 | 35 | 180 | – | – | (59) | 269 |
| Other equity | 9,750 | – | – | 9,750 | Other equity | – | 956 | – | – | – | – | 10,706 |
| Non-controlling interests in subsidiaries | 579 | – | – | 579 | Non-controlling interests | (6) | – | – | (12) | (1) | (1) | 559 |
| Total liabilities and shareholders' equity | $526,657 | $ (447) | $ 447 | $526,657 | Total liabilities and equity | $ 14,218 | $2,705 | $ 348 | $ 55 | $ (2) | $(11) | $543,970 |

### Explanation for changes in presentation

(a) Securities classified under the Trading option ($2,764) now presented under a separate line Financial assets designated at fair value through profit or loss (FVTPL).
(b), (c) and (e) – moved to a different order or line item.
(d) Split out from Business and government loans ($11,427) to FVTPL ($2,098) and Trading assets – loans ($9,329).
(f) Split out from Other assets ($2,219) to Deferred tax assets.
(g) Split out from Deposits - Personal, Business and government ($2) to Other liabilities.
(h) Split out from Other liabilities ($445) to Deferred tax liabilities.

## Explanation of significant adjustments from Canadian GAAP to IFRS

### 1. IFRS 1, First-time Adoption of International Financial Reporting Standards (IFRS 1) – Optional exemptions and mandatory exceptions

IFRS 1 requires retrospective application of all IFRS standards with certain optional exemptions and mandatory exceptions.

#### a) Optional exemptions

The Bank elected to take the following optional exemptions available under IFRS 1 at November 1, 2010. The impact of the Bank's elections with respect to the optional exemptions under IFRS is discussed below.

#### Employee benefits

The Bank elected to recognize all cumulative unamortized actuarial losses for employee defined benefit plans at the transition date against opening retained earnings, instead of retrospective restatement. The impact of this election on transition was a decrease of $1,037 million in other assets, an increase of $395 million in other liabilities and a decrease of $1,432 million in equity.

#### Cumulative translation differences

The Bank elected to reset cumulative translation differences for all foreign operations to zero at the date of transition to IFRS, instead of retrospectively recalculating the impact under IFRS. As a result, cumulative translation losses of $4,507 million were reclassified from accumulated other comprehensive income (AOCI) to opening retained earnings within equity on November 1, 2010.

#### Designation of previously recognized financial instruments

The Bank reclassified and redesignated certain financial assets at the date of transition as follows:

- Corporate loans of $2,098 million currently designated under the fair value option under Canadian GAAP were reclassified to the held-for-trading loans category under IFRS. Canadian GAAP did not permit these loans to be classified as held-for-trading.
- Certain debt securities ($555 million) traded in an inactive market were reclassified from AFS securities to business and government loans.

The following exemptions were also elected that did not have an impact on the Bank's opening balance sheet.

#### Business combinations

The Bank has elected to not restate any business combinations prior to November 1, 2010.

#### Deemed cost

The Bank has elected not to remeasure items of property, plant and equipment or investment property at fair value on the transition date.

#### Leases

The Bank has elected not to reassess its determinations made under Canadian GAAP regarding whether an agreement contains a lease.

#### Fair value measurement of financial assets or financial liabilities at initial recognition

The Bank will prospectively apply the guidance in IAS 39, *Financial Instruments*: Recognition and Measurement as this guidance is substantially aligned with Canadian GAAP. This guidance relates specifically to financial assets or financial liabilities initially recognized at fair value, where the fair value is established through valuation techniques.

#### Share-based payments

The Bank is not required to apply IFRS 2, *Share-based Payment* (IFRS 2) to equity instruments that were granted prior to November 7, 2002. The Bank is also not required to apply IFRS 2 to liabilities arising from share-based payment transactions that were settled before the transition date. The Bank has elected to apply both of these exemptions.

#### Insurance contracts

The Bank applied IFRS 4, *Insurance Contracts*, prospectively for reporting periods beginning on or after January 1, 2005. In addition, the Bank continued with its existing insurance accounting policies under IFRS.

#### Borrowing costs

The Bank will prospectively capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as prescribed by IFRS. Under Canadian GAAP, the Bank's accounting policy was to expense these costs as incurred.

#### b) Mandatory exceptions

The impact of the mandatory exceptions under IFRS are noted below.

#### Derecognition

The Bank has applied the IFRS derecognition requirements retrospectively to January 1, 2004.

Application of the derecognition criteria has resulted in:

- Recognition of cash equivalents, mortgages, AFS securities, other assets, funding liability and derecognition of swaps and other liabilities. Cash and cash equivalents increased by $0.7 billion, residential mortgages increased by $14 billion, AFS securities increased by $0.8 billion and deferred taxes and other assets increased by $0.1 billion. In addition, customer deposits increased by $23.7 billion, obligations related to securities sold under repurchase agreements decreased by $7.5 billion, and derivatives and other liabilities decreased by $0.7 billion.
- Reclassification of MBS securities retained from AFS securities to residential mortgages. Residential mortgages increased by $17.8 billion, AFS securities decreased by $18.3 billion and deferred tax assets increased by $0.1 billion and AOCI reduced by $0.4 billion.
- Securities designated as trading using fair value option requirements no longer meeting the criteria for fair value option resulting in a reclassification. AFS securities increased by $1.9 billion with a corresponding decrease in fair value option securities.

In aggregate, opening retained earnings increased by $140 million and AOCI decreased by $336 million in relation to the AFS securities resulting in a decrease in total equity of $196 million.

#### Hedge accounting

There is no significant impact as the Bank's current hedging strategies qualify for hedge accounting under IFRS.

### Assets and liabilities of subsidiaries

Since the Bank has adopted IFRS subsequent to certain of its international subsidiaries, the classification and carrying value of assets and liabilities of these subsidiaries for the Consolidated Financial Statements must be the same as the standalone financial statements of these subsidiaries. The impact of this mandatory exception was a decrease in AFS securities of $543 million with a corresponding increase in held-to-maturity securities of $270 million, an increase to business and government loans of $258 million, an increase in deferred taxes of $3 million and a decrease in equity of $12 million.

### Estimates

Estimates made in accordance with IFRS at the date of transition are consistent with those determined under Canadian GAAP with adjustments made only to reflect any differences in accounting policies. Any additional estimates that are required under IFRS, that were not required under Canadian GAAP, are based on the information and conditions that existed at the date of transition.

## 2. Consolidation

As a result of the differences in criteria, certain Special Purpose Entities (SPEs) are consolidated under IFRS that were not consolidated under Canadian GAAP. The resulting overall impact on the Bank's financial position is reflected below.

($ millions) Increase/(Decrease) — As at November 1, 2010

| Entity | Assets | Liabilities | Retained earnings | AOCI | Capital instruments equity |
|---|---|---|---|---|---|
| Bank funding vehicles | | | | | |
| Consolidation of trusts | $ (121) | $ (127) | $ 6 | $ – | $ – |
| Liabilities & equity | – | (956) | – | – | 956 |
| | (121) | (1,083) | 6 | – | 956 |
| Multi-seller conduit | 2,951 | 3,084 | (168) | 35 | – |
| Other | (125) | (17) | (108) | – | – |
| Total | $ 2,705 | $ 1,984 | $ (270) | $ 35 | $ 956 |

AOCI = Accumulated other comprehensive income

### Bank funding vehicles

The Bank issues certain of its regulatory capital instruments through trusts that were not consolidated under Canadian GAAP. The trusts' deposits with the Bank were included under deposits on the Bank's Consolidated Balance Sheet under Canadian GAAP. Under IFRS, these trusts are consolidated. The impact of consolidation is a reduction of deposits from customers ($1.1 billion), an increase to subordinated debentures ($1.0 billion), a reduction in assets of $121 million mainly from the elimination of intercompany balances between the Bank and the trusts, and an increase to retained earnings of $6 million.

In addition, certain capital instruments issued by these trusts have been assessed under IFRS as being equity instruments or compound instruments comprising both liability and equity components. The equity classification, in whole or for part of the instruments, is due to certain payment features in these instruments that do not create an unavoidable obligation to pay cash. The trusts' instruments with these equity-based features are classified, in whole or in part as applicable, as capital instruments equity. The combined impact of consolidation and the reclassification of these instruments was a reduction of deposits from customers ($2.9 billion), an increase to capital instrument liabilities ($1.9 billion), an increase of $29 million to other liabilities and an increase of $956 million to capital instruments equity.

### Multi-seller conduit

The Bank-sponsored U.S. multi-seller conduit was consolidated on transition to IFRS as the Bank meets the control criteria under IFRS. The consolidation of this conduit increased assets by approximately $3.0 billion, comprised primarily of loans and AFS securities, and liabilities by approximately $3.1 billion, comprised primarily of deposits from customers. A net decrease in opening retained earnings of $168 million and an increase of $35 million to AOCI were also recorded.

### Other

Due to the consolidation of certain other SPEs, the underlying variable of a financial guarantee changed causing it to be classified as a derivative instrument. The financial guarantee was recorded at amortized cost under Canadian GAAP and is recorded at fair value under IFRS. The resulting impact was a decrease in assets of $125 million, a decrease in liabilities of $17 million, and a corresponding decrease to opening retained earnings of $108 million.

## 3. Financial instruments

### Loan loss provisions

IFRS requires that provisions on undrawn commitments be presented in other liabilities on the Bank's balance sheet, whereas under Canadian GAAP, these provisions were presented in the allowance for credit losses. As a result, under IFRS, $157 million was reclassified from allowance for credit losses to other liabilities.

Canadian GAAP requires the cessation of the accrual of interest income on any loans identified as being impaired. Under Canadian GAAP, the Bank classified certain non-performing loans as impaired but no allowance was recorded against the loans due to the adequacy of collateral or security. Under IFRS, a loan is considered not to be impaired if there is no allowance recorded against it, and interest income continues to be accrued and recognized using the original effective interest rate. A net increase of $6 million was recorded in opening retained earnings, offset by an increase in other assets of $8 million and a reduction to deferred tax assets of $2 million as a result of this remeasurement.

### Securities carried at cost

IFRS requires that all AFS securities be measured at fair value, whereas Canadian GAAP permits equity securities not quoted in an active market to be measured at cost. On transition, an increase to the fair value adjustment of financial investments of $244 million has resulted in a corresponding increase in AOCI of $180 million, a decrease in deferred tax assets of $59 million and an increase in deferred tax liabilities of $5 million.

### 4. Employee benefits

The impact on the Bank's opening balance sheet for measurement differences between IFRS and Canadian GAAP is an increase in assets of $55 million, an increase in other liabilities of $245 million and a decrease in retaining earnings of $178 million and non-controlling interests of $12 million.

### 5. Business combinations

The business combinations model under IFRS represents a fair value model of accounting which is substantially converged with Canadian GAAP that the Bank early adopted on November 1, 2010. Although the Bank elected to not restate any business combinations that occurred prior to November 1, 2010, certain adjustments are still required upon transition to IFRS which are not grandfathered under the IFRS 1 election.

The impact of these adjustments to the Bank's opening balance sheet was a net reduction to equity of $44 million, a decrease in assets of $2 million and an increase in liabilities of $42 million, primarily as a result of recognizing contingent consideration at fair value.

### 6. Other

There are a number of other implications of adopting IFRS that individually were not significant and are summarized below.

### Investment property

IFRS requires that property held to earn rental income or for capital appreciation purposes should be classified separately as investment property under IFRS. Under Canadian GAAP, this property was classified as land, buildings and equipment. As a result, $255 million was reclassified from land, buildings and equipment to investment property on the Bank's opening balance sheet under IFRS.

### Property, plant and equipment

IFRS requires a more granular level of assessment of components of property, plant and equipment with each major component depreciated separately over its estimated useful life. The impact of this remeasurement for certain components of buildings on transition was a reduction in the land, buildings and equipment balance of $46 million, an increase to deferred tax assets of $12 million and a reduction to opening retained earnings of $34 million.

### The effects of changes in foreign exchange rates

Due to changes in functional currencies of certain subsidiaries on transition to IFRS, a transition adjustment was required to record the cumulative foreign exchange impact on certain AFS equity securities and the related funding liability, resulting in a decrease of $51 million in AOCI and an increase of $51 million in retained earnings.

### Financial reporting in hyperinflationary economies

Under IFRS, if the functional currency of a foreign operation is hyperinflationary, then purchasing power adjustments are made to the financial statements of the foreign operation prior to translation. The impact from this remeasurement was an increase of $32 million to equity accounted investments with an offsetting increase to opening retained earnings and AOCI.

### Share-based payments

As a result of the difference in measurement bases between IFRS (fair value) and Canadian GAAP (intrinsic value), the resulting adjustment for awards that have not settled on transition date was a decrease to opening retained earnings of $21 million, a decrease to deferred tax assets of $1 million and an increase in other liabilities of $20 million.

### Income taxes

Under IFRS, income tax relating to items charged or credited directly to other comprehensive income or equity, is charged or credited directly to those same balance sheet accounts regardless of the period in which the income tax is recognized. On transition, this resulted in an increase of $18 million in retained earnings and a related decrease in accumulated other comprehensive income.

### Interests in joint ventures

IFRS provides two acceptable methods to account for interests in joint ventures: proportionate consolidation or the equity method instead of only proportionate consolidation under Canadian GAAP. The Bank has elected to apply the equity method of accounting to all of its joint ventures. The impact is a decrease of $13 million in other liabilities with offsetting decreases in investments in associates and joint ventures of $11 million and other assets of $2 million.

### Insurance contracts

IFRS requires the presentation of reinsurance transactions on a gross basis. This resulted in an increase of $5 million to other assets and other liabilities on the balance sheet.

### Customer loyalty programs

IFRS applies a revenue approach to accounting for customer loyalty programs, which requires a portion of the revenue earned at the time of the transaction to be deferred, as compared to a liability approach under Canadian GAAP. As a result, on transition, other liabilities increased by $1 million with an offsetting decrease to opening retained earnings.

### Impact on regulatory capital

The impact of the IFRS adjustments to the Bank's regulatory capital ratios is a decline of approximately 77 basis points on the Bank's Tier 1 capital ratio and an increase of 0.9 to the assets-to-capital multiple. The Office of the Superintendent of Financial Institutions (OSFI) has allowed financial institutions to elect to take the impact over five quarters. The Bank has elected to phase in the impact over five quarters.

## Related party transactions

The Bank provides regular banking services to its associated and other related corporations in the ordinary course of business. These services are on terms similar to those offered to non-related parties.

Loans granted to Directors and Officers in Canada are at market terms and conditions. Prior to March 1, 2001, the Bank granted loans to officers and employees at reduced rates in Canada. The loans granted prior to March 1, 2001, are grandfathered until maturity. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers of those units at reduced rates or on preferred terms. Loans to executive officers of the Bank totaled $11.0 million as at October 31, 2011 (2010 – $7.3 million), and loans to directors $0.3 million (2010 – $0.3 million).

Directors can use some or all of their fees to buy common shares at market rates through the Directors' Share Purchase Plan. Non-Officer Directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in 2004, the Bank no longer grants stock options to non-officer directors (refer to Note 18 of the Consolidated Financial Statements on page 139).

The Bank may also provide banking services to companies affiliated with the Bank's Directors. These commercial arrangements are conducted at the same market terms and conditions provided to all customers and follow the normal credit review processes within the Bank. The Bank's committed credit exposure to companies controlled by Directors totaled $4.4 million as at October 31, 2011 (2010 – $4.6 million), while actual utilized amounts were $2.0 million (2010 – $2.8 million).

The oversight responsibilities of the Audit and Conduct Review Committee (ACRC) with respect to related party transactions include reviewing policies and practices for identifying transactions with related parties that may materially affect the Bank, and reviewing the procedures for ensuring compliance with the Bank Act for related party transactions. The Bank Act requirements encompass a broader definition of related party transactions than is set out in GAAP. In addition, the ACRC approves the terms and conditions of all transactions between the Bank and Bank-sponsored asset securitization special purpose vehicles to ensure that such transactions are at market terms and conditions. The Bank has various procedures in place to ensure that related party information is identified and reported to the ACRC on a semi-annual basis. The ACRC is provided with detailed reports that reflect the Bank's compliance with its established procedures.

The Bank's Internal Audit department carries out audit procedures as necessary to provide the ACRC with reasonable assurance that the Bank's policies and procedures to identify, authorize and report related party transactions are appropriately designed and operating effectively.

# SUPPLEMENTARY DATA*

## Geographic information

**T38** Net income by geographic segment

| For the fiscal years ($ millions) | 2011 | | | | | 2010[1] | | | | | 2009[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Canada** | **United States** | **Mexico** | **Other International** | **Total** | Canada | United States | Mexico | Other International | Total | Canada | United States | Mexico | Other International | Total |
| Net interest income | **$5,313** | **$421** | **$867** | **$3,385** | **$9,986** | $4,960 | $458 | $801 | $3,144 | $9,363 | $4,482 | $641 | $821 | $3,332 | $9,276 |
| Provision for credit losses | **619** | **(13)** | **137** | **363** | **1,106** | 709 | (54) | 168 | 456 | 1,279 | 744 | 296 | 185 | 392 | 1,617 |
| Other income | **4,762** | **495** | **452** | **2,079** | **7,788** | 3,770 | 609 | 438 | 1,912 | 6,729 | 3,211 | 452 | 424 | 1,673 | 5,760 |
| Non-interest expenses | **5,428** | **408** | **858** | **2,810** | **9,504** | 4,653 | 327 | 778 | 2,379 | 8,137 | 4,529 | 255 | 791 | 2,317 | 7,892 |
| Provision for income taxes | **713** | **210** | **73** | **380** | **1,376** | 767 | 330 | 76 | 558 | 1,731 | 538 | 222 | 69 | 380 | 1,209 |
| Net income[1] | **$3,315** | **$311** | **$251** | **$1,911** | **$5,788** | $2,601 | $464 | $217 | $1,663 | $4,945 | $1,882 | $320 | $200 | $1,916 | $4,318 |
| Corporate adjustments[2] | | | | | **(520)** | | | | | (606) | | | | | (657) |
| | | | | | **$5,268** | | | | | $4,339 | | | | | $3,661 |
| Net income attributable to: | | | | | | | | | | | | | | | |
| Non-controlling interests | | | | | **93** | | | | | 100 | | | | | 114 |
| Preferred shareholders | | | | | **216** | | | | | 201 | | | | | 186 |
| Common shareholders | | | | | $4,959 | | | | | $4,038 | | | | | $3,361 |

(1) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current presentation.
(2) Revenues and expenses which have not been allocated to specific operating business lines are reflected in corporate adjustments.

**T39** Loans and acceptances by geography

Excludes reverse repos

| As at September 30 ($ billions) | **2011** | 2010 | 2009 | 2008 | 2007 | Percentage mix **2011** | Percentage mix 2007 |
|---|---|---|---|---|---|---|---|
| Canada | | | | | | | |
| Atlantic provinces | **$ 17.9** | $ 17.0 | $ 15.7 | $ 16.2 | $ 14.2 | **5.9%** | 6.2% |
| Quebec | **18.8** | 17.7 | 16.0 | 16.7 | 14.2 | **6.2** | 6.2 |
| Ontario | **105.3** | 101.7 | 96.0 | 103.5 | 91.1 | **34.8** | 39.5 |
| Manitoba and Saskatchewan | **7.0** | 6.6 | 6.2 | 6.4 | 6.0 | **2.3** | 2.6 |
| Alberta | **23.0** | 21.7 | 20.3 | 22.4 | 19.9 | **7.6** | 8.6 |
| British Columbia | **22.4** | 21.1 | 18.8 | 21.2 | 18.8 | **7.4** | 8.1 |
| | **194.4** | 185.8 | 173.0 | 186.4 | 164.2 | **64.2** | 71.2 |
| United States | **22.6** | 21.1 | 22.0 | 20.6 | 14.9 | **7.5** | 6.5 |
| Mexico | **10.6** | 10.1 | 9.7 | 10.9 | 8.9 | **3.5** | 3.9 |
| Other International | | | | | | | |
| Latin America | **27.5** | 23.4 | 21.5 | 22.6 | 11.6 | **9.1** | 5.0 |
| Europe | **8.7** | 6.5 | 12.9 | 18.4 | 10.2 | **2.9** | 4.4 |
| Caribbean | **19.1** | 18.8 | 15.6 | 14.8 | 12.2 | **6.3** | 5.3 |
| Other | **21.1** | 17.0 | 15.1 | 16.1 | 9.9 | **6.9** | 4.3 |
| | **76.4** | 65.7 | 65.1 | 71.9 | 43.9 | **25.2** | 19.0 |
| General allowance[1] | **(1.3)** | (1.4) | (1.4) | (1.3) | (1.3) | **(0.4)** | (0.6) |
| **Total loans and acceptances** | **$ 302.7** | $ 281.3 | $ 268.4 | $ 288.5 | $ 230.6 | **100.0%** | 100.0% |

(1) As at October 31.

**T40** Gross impaired loans by geographic segment

| As at October 31 ($ millions) | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Canada | **$ 1,195** | $ 1,276 | $ 1,258 | $ 761 | $ 606 |
| United States | **125** | 179 | 408 | 107 | 11 |
| Mexico | **159** | 250 | 238 | 216 | 188 |
| Other International | **2,609** | 2,716 | 2,035 | 1,410 | 739 |
| **Total** | **$ 4,088** | $ 4,421 | $ 3,939 | $ 2,494 | $ 1,544 |

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

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

| For the fiscal years ($ millions) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Canada | **$ 618** | $ 712 | $ 804 | $ 388 | $ 295 |
| United States | **(13)** | (13) | 192 | 16 | (91) |
| Mexico | **137** | 168 | 185 | 141 | 68 |
| Other International | **364** | 456 | 392 | 85 | 23 |
| **Total** | **$ 1,106** | $ 1,323 | $ 1,573 | $ 630 | $ 295 |

**T42** Cross-border exposure to select countries[1]

| As at October 31 ($ millions) | Loans | Trade | Interbank deposits | Government and other securities | Investment in subsidiaries and affiliates | Other | 2011 Total | 2010 Total |
|---|---|---|---|---|---|---|---|---|
| Mexico | $ 1,793 | $ 300 | $ – | $ 201 | $ 2,225 | $ 59 | **$ 4,578** | $ 4,945 |
| Asia | | | | | | | | |
| China | $ 1,998 | $ 2,695 | $ 353 | $ 475 | $ 95 | $ 63 | **$ 5,679** | $ 4,304 |
| India | 2,085 | 1,411 | 46 | 207 | – | 50 | **3,799** | 2,943 |
| South Korea | 1,306 | 888 | – | 428 | – | 133 | **2,755** | 2,863 |
| Thailand | 20 | 28 | – | 22 | 1,430 | 1 | **1,501** | 1,633 |
| Hong Kong | 685 | 358 | 120 | 283 | – | 3 | **1,449** | 1,343 |
| Malaysia | 522 | 129 | – | 373 | 240 | 10 | **1,274** | 994 |
| Japan | 249 | 43 | 30 | 242 | – | 158 | **722** | 516 |
| Other[2] | 654 | 391 | 78 | 97 | – | 15 | **1,235** | 979 |
| | $ 7,519 | $ 5,943 | $ 627 | $ 2,127 | $ 1,765 | $ 433 | **$ 18,414** | $ 15,575 |
| Latin America | | | | | | | | |
| Chile | $ 1,684 | $ 290 | $ – | $ 24 | $ 2,355 | $ 4 | **$ 4,357** | $ 3,769 |
| Peru | 790 | 93 | – | 2 | 2,016 | 4 | **2,905** | 2,590 |
| Brazil | 727 | 1,787 | – | 231 | 155 | 3 | **2,903** | 2,167 |
| Costa Rica | 1,017 | 146 | – | 1 | 566 | – | **1,730** | 1,422 |
| Panama | 1,778 | 63 | 21 | – | – | 17 | **1,879** | 1,460 |
| El Salvador | 179 | 5 | – | – | 406 | – | **590** | 584 |
| Uruguay | 141 | 41 | – | 18 | 279 | – | **479** | 21 |
| Colombia | 333 | 73 | – | 2 | 59 | – | **467** | 330 |
| Venezuela | 6 | – | – | 5 | 131 | – | **142** | 110 |
| | $ 6,655 | $ 2,498 | $ 21 | $ 283 | $ 5,967 | $ 28 | **$ 15,452** | $ 12,453 |

(1) Cross-border exposure represents a claim, denominated in a currency other than the local one, against a borrower in a foreign country on the basis of ultimate risk.
(2) Includes Indonesia, the Philippines, Singapore and Taiwan.

## Credit Risk

**T43** Loans and acceptances by type of borrower

| As at October 31 ($ billions) | 2011 Balance | 2011 % of total | 2010 | 2009 |
|---|---|---|---|---|
| Loans to households | | | | |
| Residential mortgages | **$ 122.8** | **39.9%** | $ 120.2 | $ 101.3 |
| Credit cards | **10.9** | **3.5** | 10.8 | 11.1 |
| Personal loans | **51.2** | **16.6** | 51.1 | 49.3 |
| | **184.9** | **60.0** | 182.1 | 161.7 |
| Loans to businesses and governments | | | | |
| Financial services | **22.1** | **7.2** | 19.3 | 18.8 |
| Wholesale and retail | **11.5** | **3.7** | 10.4 | 10.9 |
| Real estate | **10.9** | **3.5** | 10.7 | 11.7 |
| Oil and gas | **10.2** | **3.3** | 9.3 | 9.8 |
| Transportation | **7.9** | **2.6** | 7.0 | 7.8 |
| Automotive | **5.7** | **1.8** | 5.2 | 5.1 |
| Agriculture | **5.5** | **1.8** | 4.5 | 4.3 |
| Government | **4.5** | **1.4** | 4.2 | 3.3 |
| Hotels and leisure | **3.9** | **1.3** | 4.1 | 4.8 |
| Mining and primary metals | **6.7** | **2.2** | 5.3 | 5.7 |
| Utilities | **5.3** | **1.7** | 5.0 | 6.1 |
| Health care | **4.4** | **1.4** | 4.0 | 4.0 |
| Telecommunications and cable | **4.4** | **1.4** | 3.7 | 4.6 |
| Media | **1.8** | **0.6** | 1.9 | 2.7 |
| Chemical | **1.7** | **0.6** | 1.2 | 1.3 |
| Food and beverage | **3.0** | **1.0** | 2.8 | 3.8 |
| Forest products | **1.1** | **0.4** | 1.1 | 1.5 |
| Other | **12.7** | **4.1** | 11.4 | 9.5 |
| | **123.3** | **40.0** | 111.1 | 115.7 |
| | **308.2** | **100.0%** | 293.2 | 277.4 |
| General and sectoral allowances | **(1.3)** | | (1.4) | (1.5) |
| **Total loans and acceptances** | **$ 306.9** | | $ 291.8 | $ 275.9 |

**T44** Off balance-sheet credit instruments

| As at October 31 ($ billions) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Commitments to extend credit[1] | **$ 107.5** | $ 103.6 | $ 104.5 | $ 130.2 | $ 114.3 |
| Standby letters of credit and letters of guarantee | **21.1** | 20.4 | 21.9 | 27.8 | 18.4 |
| Securities lending, securities purchase commitments and other | **14.2** | 14.0 | 12.7 | 12.8 | 13.8 |
| **Total** | **$ 142.8** | $ 138.0 | $ 139.1 | $ 170.8 | $ 146.5 |

(1) Excludes commitments which are unconditionally cancellable at the Bank's discretion at any time.

**T45** Changes in net impaired loans

| For the fiscal years ($ millions) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Gross impaired loans | | | | | |
| Balance at beginning of year | **$ 4,421** | $ 3,939 | $ 2,494 | $ 1,544 | $ 1,870 |
| Net additions | | | | | |
| New additions | **3,007** | 3,298 | 4,461 | 2,158 | 1,338 |
| Declassifications, payments and loan sales | **(1,948)** | (1,772) | (1,149) | (846) | (891) |
| | **1,059** | 1,526 | 3,312 | 1,312 | 447 |
| Acquisition of subsidiaries[(1)] | **–** | 571 | – | 341 | 33 |
| Writeoffs | | | | | |
| Residential mortgages | **(130)** | (82) | (64) | (59) | (5) |
| Personal loans | **(374)** | (804) | (669) | (424) | (301) |
| Credit cards | **(628)** | (352) | (470) | (268) | (183) |
| Business and government | **(192)** | (347) | (457) | (129) | (209) |
| | **(1,324)** | (1,585) | (1,660) | (880) | (698) |
| Foreign exchange and other | **(68)** | (30) | (207) | 177 | (108) |
| Balance at end of year | **4,088** | 4,421 | 3,939 | 2,494 | 1,544 |
| Specific allowance for credit losses | | | | | |
| Balance at beginning of year | **1,377** | 1,376 | 1,303 | 943 | 1,300 |
| Acquisition of subsidiaries | **–** | 14 | 9 | 232 | 38 |
| Specific provision for credit losses | **1,106** | 1,323 | 1,573 | 630 | 295 |
| Writeoffs | **(1,324)** | (1,585) | (1,660) | (880) | (698) |
| Recoveries by portfolio | | | | | |
| Residential mortgages | **55** | 18 | 27 | 34 | 4 |
| Personal loans | **71** | 122 | 94 | 73 | 73 |
| Credit cards | **152** | 56 | 47 | 45 | 35 |
| Business and government | **71** | 68 | 55 | 79 | 74 |
| | **349** | 264 | 223 | 231 | 186 |
| Foreign exchange and other[(2)] | **(43)** | (15) | (72) | 147 | (178) |
| Balance at end of year | **1,465** | 1,377 | 1,376 | 1,303 | 943 |
| Net impaired loans | | | | | |
| Balance at beginning of year | **3,044** | 2,563 | 1,191 | 601 | 570 |
| Net change in gross impaired loans | **(333)** | 482 | 1,445 | 950 | (326) |
| Net change in specific allowance for credit losses | **(88)** | (1) | (73) | (360) | 357 |
| Balance at end of year | **2,623** | 3,044 | 2,563 | 1,191 | 601 |
| General allowance for credit losses | **1,352** | 1,410 | 1,450 | 1,323 | 1,298 |
| Sectoral allowance | **–** | – | 44 | – | – |
| Balance after deducting general and sectoral allowance | **$ 1,271** | $ 1,634 | $ 1,069 | $ (132) | $ (697) |

(1) Represents primarily $553 of impaired loans purchased as part of the acquisitions of R-G Premier Bank of Puerto Rico. These impaired loans are carried at fair value on date of acquisition and no allowance for credit losses is recorded at the acquisition date as credit losses are included in the determination of the fair value.
(2) Includes $1 transferred to/from other liabilities in 2011, $4 transferred to other liabilities in 2010, $3 transferred from other liabilities in 2009, and $3 transferred from other liabilities in 2008.

**T46** Provisions for credit losses

| For the fiscal years ($ millions) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Specific provisions for credit losses | | | | | |
| Gross specific provisions | **$ 1,623** | $ 1,708 | $ 1,969 | $ 1,084 | $ 720 |
| Reversals | **(168)** | (121) | (173) | (223) | (239) |
| Recoveries | **(349)** | (264) | (223) | (231) | (186) |
| Net specific provisions for credit losses | **1,106** | 1,323 | 1,573 | 630 | 295 |
| General provision | **(60)** | (40) | 127 | – | (25) |
| Sectoral provision | **–** | (44) | 44 | – | – |
| **Total net provisions for credit losses** | **$ 1,046** | $ 1,239 | $ 1,744 | $ 630 | $ 270 |

**T47** Specific provisions for credit losses by type of borrower

| For the fiscal years ($ millions) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Personal | | | | | |
| Residential mortgages | **$ 176** | $ 104 | $ 25 | $ – | $ (9) |
| Other personal loans | **763** | 972 | 1,042 | 636 | 449 |
| | **939** | 1,076 | 1,067 | 636 | 440 |
| Businesses and governments | | | | | |
| Financial services | **(7)** | 6 | 199 | 7 | (10) |
| Wholesale and retail | **23** | 51 | 101 | – | (39) |
| Real estate | **14** | 16 | 59 | (69) | (11) |
| Oil and gas | **48** | 2 | 34 | 43 | (1) |
| Transportation | **41** | 44 | (9) | (15) | (9) |
| Automotive | **(2)** | (4) | 19 | 5 | 1 |
| Agriculture | **(1)** | (4) | 19 | 5 | (4) |
| Government | **–** | 1 | (35) | (18) | 2 |
| Hotels and leisure | **1** | 81 | 10 | (4) | (5) |
| Mining and primary metals | **1** | (2) | 3 | (16) | (4) |
| Utilities | **3** | – | – | (2) | (18) |
| Health care | **4** | 8 | 4 | 2 | (1) |
| Telecommunications and cable | **1** | (4) | 6 | (3) | (5) |
| Media | **15** | (15) | 52 | 11 | (13) |
| Chemical | **–** | (3) | 1 | 7 | (22) |
| Food and beverage | **2** | 2 | 8 | (17) | (6) |
| Forest products | **4** | 2 | 5 | 3 | – |
| Other | **20** | 66 | 30 | 55 | – |
| | **167** | 247 | 506 | (6) | (145) |
| **Total specific provisions** | **$ 1,106** | $ 1,323 | $ 1,573 | $ 630 | $ 295 |

**T48** Impaired loans by type of borrower

| As at October 31 ($ millions) | 2011 Gross | 2011 Specific allowance for credit losses | 2011 Net | 2010 Gross | 2010 Specific allowance for credit losses | 2010 Net |
|---|---|---|---|---|---|---|
| Personal | | | | | | |
| Residential mortgages | **$ 1,568** | **$ (268)** | **$ 1,300** | $ 1,694 | $ (222) | $ 1,472 |
| Other personal loans | **853** | **(683)** | **170** | 756 | (666) | 90 |
| | **2,421** | **(951)** | **1,470** | 2,450 | (888) | 1,562 |
| Businesses and governments | | | | | | |
| Financial services | **57** | **(24)** | **33** | 91 | (38) | 53 |
| Wholesale and retail | **187** | **(85)** | **102** | 225 | (88) | 137 |
| Real estate | **471** | **(86)** | **385** | 705 | (88) | 617 |
| Oil and gas | **55** | **(61)** | **(6)** | 8 | (3) | 5 |
| Transportation | **118** | **(51)** | **67** | 188 | (51) | 137 |
| Automotive | **15** | **(1)** | **14** | 15 | (11) | 4 |
| Agriculture | **63** | **(23)** | **40** | 78 | (31) | 47 |
| Government | **32** | **(6)** | **26** | 48 | (10) | 38 |
| Hotels and leisure | **221** | **(31)** | **190** | 331 | (49) | 282 |
| Mining and primary metals | **21** | **(10)** | **11** | 18 | (11) | 7 |
| Utilities | **13** | **(4)** | **9** | 2 | – | 2 |
| Health care | **44** | **(9)** | **35** | 23 | (10) | 13 |
| Telecommunications and cable | **27** | **(10)** | **17** | 18 | (5) | 13 |
| Media | **42** | **(16)** | **26** | 4 | (3) | 1 |
| Chemical | **1** | **–** | **1** | 1 | (1) | – |
| Food and beverage | **35** | **(14)** | **21** | 35 | (16) | 19 |
| Forest products | **22** | **(8)** | **14** | 14 | (5) | 9 |
| Other | **243** | **(75)** | **168** | 167 | (69) | 98 |
| | **1,667** | **(514)** | **1,153** | 1,971 | (489) | 1,482 |
| **Total** | **$ 4,088** | **$ (1,465)** | **$ 2,623** | $ 4,421 | $ (1,377) | $ 3,044 |

**T49** Total credit risk exposures by geography[1,2]

| As at October 31 ($ millions) | 2011 Non-Retail Drawn | 2011 Non-Retail Undrawn | 2011 Non-Retail Other exposures[3] | 2011 Retail | 2011 Total | 2010 Total |
|---|---|---|---|---|---|---|
| Canada | **$ 53,446** | **$ 25,240** | **$ 25,092** | **$ 201,866** | **$ 305,644** | $ 280,984 |
| United States | **39,500** | **18,564** | **22,067** | **472** | **80,603** | 73,316 |
| Mexico | **6,906** | **161** | **760** | **4,674** | **12,501** | 12,658 |
| Other International | | | | | | |
| Europe | **14,630** | **4,784** | **7,865** | **–** | **27,279** | 27,153 |
| Caribbean | **15,139** | **2,242** | **2,088** | **12,366** | **31,835** | 30,490 |
| Latin America | **18,541** | **820** | **1,684** | **8,431** | **29,476** | 25,267 |
| Other | **27,670** | **3,167** | **2,333** | **122** | **33,292** | 26,869 |
| **Total** | **$ 175,832** | **$ 54,978** | **$ 61,889** | **$ 227,931** | **$ 520,630** | $ 476,737 |

(1) Geographic segmentation is based upon the location of the ultimate risk of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.
(2) Exposure at default.
(3) Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, derivatives, securitization and repo-style transactions after collateral.

**T50** AIRB credit risk exposures by maturity[1,2]

As at October 31 ($ millions)

| Residual maturity | 2011 Drawn | 2011 Undrawn | 2011 Other exposures[3] | 2011 Total | 2010 Total |
|---|---|---|---|---|---|
| Non-retail | | | | | |
| Less than 1 year | **$ 83,771** | **$ 19,136** | **$ 27,782** | **$ 130,689** | $ 88,543 |
| One to 5 years | **49,513** | **32,514** | **30,390** | **112,417** | 90,427 |
| Over 5 years | **8,063** | **1,302** | **2,260** | **11,625** | 10,055 |
| **Total non-retail** | **$ 141,347** | **52,952** | **60,432** | **254,731** | $ 189,025 |
| Retail | | | | | |
| Less than 1 year | **$ 15,515** | **$ 12,410** | **$ –** | **$ 27,925** | $ 22,382 |
| One to 5 years | **120,296** | **–** | **–** | **120,296** | 115,298 |
| Over 5 years | **3,989** | **–** | **–** | **3,989** | 2,866 |
| Revolving credits[4] | **33,264** | **12,195** | **–** | **45,459** | 39,138 |
| **Total retail** | **$ 173,064** | **$ 24,605** | **$ –** | **$ 197,669** | $ 179,684 |
| **Total** | **$ 314,411** | **$ 77,557** | **$ 60,432** | **$ 452,400** | $ 368,709 |

(1) Remaining term to maturity of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.
(2) Exposure at default, before credit risk mitigation.
(3) Off-balance sheet lending instruments, such as letters of credit, letters of guarantee, securitization, derivatives and repo-style transactions after collateral.
(4) Credit cards and lines of credit with unspecified maturity.

**T51** Total credit risk exposures and risk-weighted assets

| As at October 31 ($ millions) | 2011 | | | | 2010 | |
|---|---|---|---|---|---|---|
| | Exposure at Default(1) | | | Total Risk-weighted assets | Exposure at Default Total(1) | Total Risk-weighted assets |
| | AIRB | Standardized(2) | Total | | | |
| **Non-retail** | | | | | | |
| **Corporate** | | | | | | |
| Drawn | $ 72,341 | $ 27,455 | $ 99,796 | $ 75,405 | $ 90,678 | $ 71,290 |
| Undrawn | 40,712 | 1,797 | 42,509 | 20,783 | 39,285 | 19,553 |
| Other(3) | 13,821 | 1,401 | 15,222 | 7,307 | 12,711 | 6,754 |
| | 126,874 | 30,653 | 157,527 | 103,495 | 142,674 | 97,597 |
| **Bank** | | | | | | |
| Drawn | 22,373 | 3,651 | 26,024 | 8,473 | 25,835 | 6,107 |
| Undrawn | 11,153 | 188 | 11,341 | 2,851 | 11,744 | 3,162 |
| Other(3) | 10,369 | 56 | 10,425 | 1,536 | 10,496 | 1,800 |
| | 43,895 | 3,895 | 47,790 | 12,860 | 48,075 | 11,069 |
| **Sovereign** | | | | | | |
| Drawn | 46,633 | 3,379 | 50,012 | 4,392 | 43,301 | 2,080 |
| Undrawn | 1,087 | 41 | 1,128 | 225 | 635 | 71 |
| Other(3) | 236 | – | 236 | 17 | 151 | 6 |
| | 47,956 | 3,420 | 51,376 | 4,634 | 44,087 | 2,157 |
| **Total Non-retail** | | | | | | |
| Drawn | 141,347 | 34,485 | 175,832 | 88,270 | 159,814 | 79,477 |
| Undrawn | 52,952 | 2,026 | 54,978 | 23,859 | 51,664 | 22,786 |
| Other(3) | 24,426 | 1,457 | 25,883 | 8,860 | 23,358 | 8,560 |
| | $ 218,725 | $ 37,968 | $ 256,693 | $ 120,989 | $ 234,836 | $ 110,823 |
| **Retail** | | | | | | |
| **Retail residential mortgages** | | | | | | |
| Drawn | $ 127,349 | $ 16,592 | $ 143,941 | $ 10,446 | $ 137,931 | $ 12,107 |
| Undrawn | – | – | – | – | 8,068 | 132 |
| | 127,349 | 16,592 | 143,941 | 10,446 | 145,999 | 12,239 |
| **Secured lines of credit** | | | | | | |
| Drawn | 17,937 | – | 17,937 | 4,651 | 18,066 | 967 |
| Undrawn | 11,780 | – | 11,780 | 1,393 | 78 | 1 |
| | 29,717 | – | 29,717 | 6,044 | 18,144 | 968 |
| **Qualifying retail revolving exposures (QRRE)** | | | | | | |
| Drawn | 14,239 | – | 14,239 | 5,867 | 13,835 | 6,967 |
| Undrawn | 12,195 | – | 12,195 | 1,418 | 5,948 | 926 |
| | 26,434 | – | 26,434 | 7,285 | 19,783 | 7,893 |
| **Other retail** | | | | | | |
| Drawn | 13,539 | 13,670 | 27,209 | 15,911 | 24,780 | 14,990 |
| Undrawn | 630 | – | 630 | 67 | 211 | 131 |
| | 14,169 | 13,670 | 27,839 | 15,978 | 24,991 | 15,121 |
| **Total retail** | | | | | | |
| Drawn | 173,064 | 30,262 | 203,326 | 36,875 | 194,612 | 35,031 |
| Undrawn | 24,605 | – | 24,605 | 2,878 | 14,305 | 1,190 |
| | $ 197,669 | $ 30,262 | $ 227,931 | $ 39,753 | $ 208,917 | $ 36,221 |
| Securitization exposures | 14,466 | – | 14,466 | 4,423 | 15,503 | 4,606 |
| Trading derivatives | 21,540 | – | 21,540 | 5,612 | 17,481 | 5,425 |
| **Subtotal** | $ 452,400 | $ 68,230 | $ 520,630 | $ 170,777 | $ 476,737 | $ 157,075 |
| Equities | 3,184 | – | 3,184 | 6,606 | 2,984 | 5,664 |
| Other assets | – | 35,968 | 35,968 | 15,622 | 28,404 | 12,127 |
| **Total credit risk, before scaling factor** | $ 455,584 | $ 104,198 | $ 559,782 | $ 193,005 | $ 508,125 | $ 174,866 |
| Add-on for 6% scaling factor(4) | | | | 7,743 | | 5,649 |
| **Total credit risk** | $ 455,584 | $ 104,198 | $ 559,782 | $ 200,748 | $ 508,125 | $ 180,515 |

(1) Outstanding amount for on-balance sheet exposures and loan equivalent amount for off-balance sheet exposures, before credit risk mitigation.
(2) Net of specific allowances for credit losses.
(3) Other exposures include off-balance sheet lending instruments, such as letters of credit, letters of guarantee, non-trading derivatives and repo-style exposures, after collateral.
(4) Basel Committee imposed scaling factor (6%) on risk-weighted assets for Internal ratings-based credit risk portfolios.

## Revenues and Expenses

**T52** Volume/rate analysis of changes in net interest income

| Taxable equivalent basis[1]<br>For the fiscal years ($ millions) | Increase (decrease) due to change in: 2011 versus 2010 | | | 2010 versus 2009 | | |
|---|---|---|---|---|---|---|
| | **Average volume** | **Average rate** | **Net change** | Average volume | Average rate | Net change |
| Net interest income | | | | | | |
| Total earning assets | **$ 1,624** | **$ 198** | **$ 1,822** | $ 652 | $ (2,698) | $ (2,046) |
| Total interest-bearing liabilities | **(819)** | **(353)** | **(1,172)** | (299) | 2,636 | 2,337 |
| Change in net interest income | **$ 805** | **$ (155)** | **$ 650** | $ 353 | $ (62) | $ 291 |

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

**T53** Provision for income taxes

| For the fiscal years ($ millions) | **2011** | 2010 | 2009 | 2008 | 2007 | **2011 versus 2010** |
|---|---|---|---|---|---|---|
| Income taxes | | | | | | |
| Provision for income taxes | **$ 1,410** | $ 1,745 | $ 1,133 | $ 691 | $ 1,063 | **(19)%** |
| Taxable equivalent adjustment[1] | **287** | 286 | 288 | 416 | 531 | – |
| Provision for income taxes (TEB)[1] | **1,697** | 2,031 | 1,421 | 1,107 | 1,594 | **(16)** |
| Other taxes | | | | | | |
| Payroll taxes | **222** | 197 | 184 | 177 | 164 | **13** |
| Business and capital taxes | **183** | 171 | 177 | 116 | 143 | **7** |
| Harmonized sales tax and other[2] | **263** | 133 | 136 | 129 | 143 | **98** |
| Total other taxes | **668** | 501 | 497 | 422 | 450 | **33** |
| Total income and other taxes (TEB)[3] | **$ 2,365** | $ 2,532 | $ 1,918 | $ 1,529 | $ 2,044 | **(7)%** |
| Net income before income taxes | **6,678** | $ 6,084 | $ 4,794 | $ 3,950 | $ 5,226 | **10%** |
| Effective income tax rate (%) | **21.1** | 28.7 | 23.6 | 17.5 | 20.3 | **(7.6)** |
| Effective income tax rate (TEB) (%)[4] | **24.4** | 31.9 | 28.0 | 25.4 | 27.7 | **(7.5)** |
| Total tax rate (%)[5] | **28.3** | 34.1 | 30.8 | 25.5 | 26.7 | **(5.8)** |

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 29.
(2) Harmonized sales tax was implemented effective July 2010. Prior to this, amounts include goods and services tax.
(3) Comprising $1,398 of Canadian taxes (2010 – $1,365; 2009 – $675; 2008 – $569; 2007 – $1,175) and $967 of foreign taxes (2010 – $1,167; 2009 – $1,243; 2008 – $960; 2007 – $869).
(4) Provision for income tax, expressed on a taxable equivalent basis, as a percentage of net income before income taxes.
(5) Total income and other taxes as a percentage of net income before income and other taxes.

## Other Information

**T54** Assets under administration and management[1]

| ($ billions) | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Assets under administration | | | | | |
| Personal | | | | | |
| Retail brokerage | **$115.2** | $ 87.7 | $ 76.4 | $ 74.3 | $ 77.4 |
| Investment management and trust | **72.0** | 68.8 | 60.1 | 55.8 | 53.1 |
| | **187.2** | 156.5 | 136.5 | 130.1 | 130.5 |
| Mutual funds | **76.0** | 38.8 | 31.6 | 27.9 | 24.8 |
| Institutional | **62.1** | 48.5 | 47.0 | 45.1 | 39.8 |
| **Total** | **$325.3** | $ 243.8 | $ 215.1 | $ 203.1 | $ 195.1 |
| Assets under management[2] | | | | | |
| Personal | **$ 17.2** | $ 14.3 | $ 13.6 | $ 12.5 | $ 11.2 |
| Mutual funds | **67.0** | 33.2 | 27.5 | 23.4 | 20.6 |
| Institutional | **18.8** | 6.0 | 5.2 | 4.6 | 4.3 |
| **Total** | **$103.0** | $ 53.5 | $ 46.3 | $ 40.5 | $ 36.1 |

(1) 2009 to 2011 data as at October 31; 2007 and 2008 data as at September 30.
(2) Prior period amounts have been restated to reflect the updated definition of assets under management. Refer to page 29 for a discussion on non-GAAP measures.

**T55** Fees paid to the shareholders' auditors

| For the fiscal years ($ millions) | **2011** | 2010 |
|---|---|---|
| Audit services | **$18.9** | $18.0 |
| Audit-related services | **1.4** | 0.6 |
| Tax services outside of the audit scope | **0.1** | 0.1 |
| Other non-audit services | **0.5** | 0.2 |
| **Total** | **$20.9** | $18.9 |

**T56** Selected quarterly information

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| As at and for the quarter ended | **Q4** | **Q3** | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 |
| Operating results ($ millions) | | | | | | | | |
| Net interest income | **2,398** | **2,358** | **2,214** | **2,300** | 2,243 | 2,173 | 2,058 | 2,147 |
| Net interest income (TEB[(1)]) | **2,472** | **2,431** | **2,283** | **2,371** | 2,313 | 2,243 | 2,129 | 2,222 |
| Total revenue | **4,346** | **4,300** | **4,517** | **4,125** | 3,942 | 3,784 | 3,873 | 3,906 |
| Total revenue (TEB[(1)]) | **4,420** | **4,373** | **4,586** | **4,196** | 4,012 | 3,854 | 3,944 | 3,981 |
| Provision for credit losses | **272** | **243** | **262** | **269** | 254 | 276 | 338 | 371 |
| Non-interest expenses | **2,519** | **2,381** | **2,378** | **2,286** | 2,183 | 2,023 | 1,967 | 2,009 |
| Provision for income taxes | **315** | **391** | **334** | **370** | 390 | 399 | 444 | 512 |
| Provision for income taxes (TEB[(1)]) | **389** | **464** | **403** | **441** | 460 | 469 | 515 | 587 |
| Net income[(2)] | **1,240** | **1,285** | **1,543** | **1,200** | 1,115 | 1,086 | 1,124 | 1,014 |
| Net income attributable to common shareholders | **1,168** | **1,204** | **1,464** | **1,123** | 1,040 | 1,011 | 1,048 | 939 |
| Operating performance | | | | | | | | |
| Basic earnings per share ($) | **1.08** | **1.11** | **1.36** | **1.08** | 1.00 | 0.98 | 1.02 | 0.92 |
| Diluted earnings per share ($) | **1.07** | **1.11** | **1.36** | **1.07** | 1.00 | 0.98 | 1.02 | 0.91 |
| Diluted cash earnings per share ($)[(1)] | **1.10** | **1.14** | **1.38** | **1.09** | 1.02 | 0.99 | 1.04 | 0.93 |
| Return on equity (%)[(1)] | **16.6** | **17.8** | **22.9** | **18.7** | 17.9 | 18.2 | 19.9 | 17.4 |
| Productivity ratio (%)(TEB)[(1)] | **57.0** | **54.5** | **51.8** | **54.5** | 54.4 | 52.5 | 49.9 | 50.5 |
| Net interest margin on total average assets (%)(TEB)[(1)] | **1.63** | **1.67** | **1.68** | **1.75** | 1.75 | 1.68 | 1.73 | 1.76 |
| Balance sheet information ($ billions) | | | | | | | | |
| Cash resources and securities | **174.3** | **184.4** | **200.3** | **175.5** | 162.6 | 167.4 | 181.4 | 173.5 |
| Loans and acceptances | **306.9** | **301.1** | **294.4** | **292.2** | 291.8 | 286.5 | 281.3 | 275.8 |
| Total assets | **575.3** | **567.7** | **571.5** | **541.3** | 526.7 | 523.4 | 526.1 | 507.6 |
| Deposits | **396.4** | **390.2** | **396.1** | **374.9** | 361.7 | 365.2 | 371.2 | 364.9 |
| Preferred shares | **4.4** | **4.4** | **4.4** | **4.0** | 4.0 | 4.0 | 4.0 | 3.7 |
| Common shareholders' equity | **28.4** | **27.4** | **26.4** | **24.1** | 23.7 | 22.5 | 21.6 | 21.6 |
| Assets under administration[(1)] | **325.3** | **329.8** | **333.0** | **252.9** | 243.8 | 229.3 | 231.0 | 226.3 |
| Assets under management[(1)(3)] | **103.0** | **104.9** | **106.8** | **55.8** | 53.5 | 49.9 | 50.5 | 48.9 |
| Capital measures | | | | | | | | |
| Tier 1 capital ratio (%) | **12.2** | **12.3** | **12.0** | **11.8** | 11.8 | 11.7 | 11.2 | 11.2 |
| Total capital ratio (%) | **13.9** | **14.1** | **13.9** | **13.7** | 13.8 | 13.8 | 13.3 | 13.5 |
| Tangible common equity to risk-weighted assets (%)[(1)(4)] | **9.6** | **9.6** | **9.3** | **9.9** | 9.7 | 9.4 | 8.8 | 8.8 |
| Asset-to-capital multiple | **16.6** | **17.0** | **17.6** | **17.6** | 17.0 | 17.1 | 17.7 | 16.8 |
| Risk-weighted assets ($ billions) | **234.0** | **224.8** | **222.3** | **215.3** | 215.0 | 213.0 | 215.1 | 215.9 |
| Credit quality | | | | | | | | |
| Net impaired loans[(5)] ($ millions) | **2,623** | **2,771** | **2,881** | **2,944** | 3,044 | 2,598 | 2,475 | 2,677 |
| General allowance for credit losses ($ millions) | **1,352** | **1,382** | **1,412** | **1,410** | 1,410 | 1,450 | 1,450 | 1,450 |
| Sectoral allowance ($ millions) | **–** | **–** | **–** | **–** | – | – | 24 | 43 |
| Net impaired loans as a % of loans and acceptances[(5)] | **0.85** | **0.92** | **0.98** | **1.01** | 1.04 | 0.91 | 0.88 | 0.97 |
| Specific provision for credit losses as a % of average loans and acceptances (annualized) | **0.40** | **0.38** | **0.38** | **0.38** | 0.41 | 0.43 | 0.55 | 0.55 |
| Common share information | | | | | | | | |
| Share price ($) | | | | | | | | |
| High | **54.96** | **59.73** | **61.28** | **57.72** | 55.76 | 52.89 | 55.33 | 49.93 |
| Low | **49.00** | **53.77** | **56.25** | **52.11** | 49.00 | 47.71 | 44.39 | 44.12 |
| Close | **52.53** | **54.18** | **57.69** | **56.46** | 54.67 | 51.59 | 51.78 | 44.83 |
| Shares outstanding (millions) | | | | | | | | |
| Average – Basic | **1,086** | **1,082** | **1,079** | **1,044** | 1,039 | 1,034 | 1,030 | 1,025 |
| Average – Diluted | **1,087** | **1,084** | **1,080** | **1,044** | 1,040 | 1,036 | 1,031 | 1,028 |
| End of period | **1,089** | **1,085** | **1,082** | **1,047** | 1,043 | 1,038 | 1,034 | 1,029 |
| Dividends per share ($) | **0.52** | **0.52** | **0.52** | **0.49** | 0.49 | 0.49 | 0.49 | 0.49 |
| Dividend yield (%)[(6)] | **4.0** | **3.7** | **3.5** | **3.6** | 3.7 | 3.9 | 3.9 | 4.2 |
| Market capitalization ($ billions) | **57.2** | **58.8** | **62.4** | **59.1** | 57.0 | 53.6 | 53.5 | 46.1 |
| Book value per common share ($) | **26.06** | **25.21** | **24.39** | **23.03** | 22.68 | 21.67 | 20.87 | 21.04 |
| Market value to book value multiple | **2.0** | **2.1** | **2.4** | **2.5** | 2.4 | 2.4 | 2.5 | 2.1 |
| Price to earnings multiple (trailing 4 quarters) | **11.3** | **11.9** | **13.1** | **13.9** | 14.0 | 13.8 | 14.2 | 13.0 |

(1) Non-GAAP measure. Refer to the Non-GAAP Measures on page 29.
(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.
(3) Comparative amounts have been restated to reflect the updated definition of assets under management. Refer to page 29 for discussion on non-GAAP measures.
(4) Comparative amounts have been restated to reflect the revised definition of tangible common equity to risk-weighted assets. Refer to page 29 for discussion of non-GAAP measures.
(5) Net impaired loans are impaired loans less the specific allowance for credit losses.
(6) Based on the average of the high and low common share price for the year.

## Eleven-year Statistical Review

**T57** Consolidated Balance Sheet

| As at October 31 ($ millions) | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Assets | | | | |
| Cash resources | **$ 54,471** | $ 46,027 | $ 43,278 | $ 37,318 |
| Securities | | | | |
| Trading | **63,327** | 64,684 | 58,067 | 48,292 |
| Available-for-sale | **52,055** | 47,228 | 55,699 | 38,823 |
| Investment | **–** | – | – | – |
| Equity accounted investments | **4,491** | 4,651 | 3,528 | 920 |
| | **119,873** | 116,563 | 117,294 | 88,035 |
| Securities purchased under resale agreements | **34,582** | 27,920 | 17,773 | 19,451 |
| Loans | | | | |
| Residential mortgages | **123,082** | 120,482 | 101,604 | 115,084 |
| Personal and credit cards | **62,764** | 62,548 | 61,048 | 50,719 |
| Business and government | **115,673** | 103,981 | 106,520 | 125,503 |
| | **301,519** | 287,011 | 269,172 | 291,306 |
| Allowance for credit losses | **2,817** | 2,787 | 2,870 | 2,626 |
| | **298,702** | 284,224 | 266,302 | 288,680 |
| Other | | | | |
| Customers' liability under acceptances | **8,172** | 7,616 | 9,583 | 11,969 |
| Derivative instruments[(1)] | **37,208** | 26,852 | 25,992 | 44,810 |
| Land, buildings and equipment | **2,552** | 2,450 | 2,372 | 2,449 |
| Other assets[(1)] | **19,696** | 15,005 | 13,922 | 14,913 |
| | **67,628** | 51,923 | 51,869 | 74,141 |
| | **$ 575,256** | $ 526,657 | $ 496,516 | $ 507,625 |
| Liabilities and shareholders' equity | | | | |
| Deposits | | | | |
| Personal | **$ 133,025** | $ 128,850 | $ 123,762 | $ 118,919 |
| Business and government | **242,006** | 210,687 | 203,594 | 200,566 |
| Banks | **21,345** | 22,113 | 23,063 | 27,095 |
| | **396,376** | 361,650 | 350,419 | 346,580 |
| Other | | | | |
| Acceptances | **8,172** | 7,616 | 9,583 | 11,969 |
| Obligations related to securities sold under repurchase agreements | **46,062** | 40,286 | 36,568 | 36,506 |
| Obligations related to securities sold short | **15,450** | 21,519 | 14,688 | 11,700 |
| Derivative instruments[(1)] | **40,889** | 31,990 | 28,806 | 42,811 |
| Other liabilities[(1)] | **28,984** | 28,947 | 24,682 | 31,063 |
| | **139,557** | 130,358 | 114,327 | 134,049 |
| Subordinated debentures | **5,923** | 5,939 | 5,944 | 4,352 |
| Capital instrument liabilities | **–** | 500 | 500 | 500 |
| Shareholders' equity | | | | |
| Preferred shares | **4,384** | 3,975 | 3,710 | 2,860 |
| Common shareholders' equity | | | | |
| Common shares and contributed surplus | **8,432** | 5,775 | 4,946 | 3,829 |
| Retained earnings | **24,662** | 21,932 | 19,916 | 18,549 |
| Accumulated other comprehensive income (loss) | **(4,718)** | (4,051) | (3,800) | (3,596) |
| Total common shareholders' equity | **28,376** | 23,656 | 21,062 | 18,782 |
| Total equity attributable to equity holders of the Bank | **32,760** | 27,631 | 24,772 | 21,642 |
| Non-controlling interest[(2)] | **640** | 579 | 554 | 502 |
| Total shareholders' equity | **33,400** | 28,210 | 25,326 | 22,144 |
| | **$ 575,256** | $ 526,657 | $ 496,516 | $ 507,625 |

(1) Amounts for years prior to 2004 have not been reclassified to conform with current period presentation for derivative accounting as the information is not readily available.
(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| $ 29,195 | $ 23,376 | $ 20,505 | $ 17,155 | $ 20,581 | $ 20,273 | $ 20,160 |
| 59,685 | 62,490 | 50,007 | 43,056 | 42,899 | 34,592 | 27,834 |
| 28,426 | – | – | – | – | – | – |
| – | 32,870 | 23,285 | 15,576 | 20,141 | 21,439 | 25,256 |
| 724 | 142 | 167 | 141 | 152 | 163 | 194 |
| 88,835 | 95,502 | 73,459 | 58,773 | 63,192 | 56,194 | 53,284 |
| 22,542 | 25,705 | 20,578 | 17,880 | 22,648 | 32,262 | 27,500 |
| 102,154 | 89,590 | 75,520 | 69,018 | 61,646 | 56,295 | 52,592 |
| 41,734 | 39,058 | 34,695 | 30,182 | 26,277 | 23,363 | 20,116 |
| 85,500 | 76,733 | 62,681 | 57,384 | 64,313 | 77,181 | 79,460 |
| 229,388 | 205,381 | 172,896 | 156,584 | 152,236 | 156,839 | 152,168 |
| 2,241 | 2,607 | 2,469 | 2,696 | 3,217 | 3,430 | 4,236 |
| 227,147 | 202,774 | 170,427 | 153,888 | 149,019 | 153,409 | 147,932 |
| 11,538 | 9,555 | 7,576 | 7,086 | 6,811 | 8,399 | 9,301 |
| 21,960 | 12,098 | 12,867 | 15,488 | 15,308 | 15,821 | 15,886 |
| 2,061 | 2,103 | 1,836 | 1,823 | 1,944 | 2,101 | 2,325 |
| 8,232 | 7,893 | 6,777 | 7,119 | 6,389 | 7,921 | 8,037 |
| 43,791 | 31,649 | 29,056 | 31,516 | 30,452 | 34,242 | 35,549 |
| $ 411,510 | $ 379,006 | $ 314,025 | $ 279,212 | $ 285,892 | $ 296,380 | $ 284,425 |
| $ 100,823 | $ 93,450 | $ 83,953 | $ 79,020 | $ 76,431 | $ 75,558 | $ 75,573 |
| 161,229 | 141,072 | 109,389 | 94,125 | 93,541 | 93,830 | 80,810 |
| 26,406 | 29,392 | 24,103 | 22,051 | 22,700 | 26,230 | 29,812 |
| 288,458 | 263,914 | 217,445 | 195,196 | 192,672 | 195,618 | 186,195 |
| 11,538 | 9,555 | 7,576 | 7,086 | 6,811 | 8,399 | 9,301 |
| 28,137 | 33,470 | 26,032 | 19,428 | 28,686 | 31,881 | 30,627 |
| 16,039 | 13,396 | 11,250 | 7,585 | 9,219 | 8,737 | 6,442 |
| 24,689 | 12,869 | 13,004 | 16,002 | 14,758 | 15,500 | 15,453 |
| 21,138 | 24,799 | 18,983 | 13,785 | 14,145 | 15,678 | 15,369 |
| 101,541 | 94,089 | 76,845 | 63,886 | 73,619 | 80,195 | 77,192 |
| 1,710 | 2,271 | 2,597 | 2,615 | 2,661 | 3,878 | 5,344 |
| 500 | 750 | 750 | 2,250 | 2,500 | 2,225 | 1,975 |
| 1,635 | 600 | 600 | 300 | 300 | 300 | 300 |
| 3,566 | 3,425 | 3,317 | 3,229 | 3,141 | 3,002 | 2,920 |
| 17,460 | 15,843 | 14,126 | 13,239 | 11,747 | 10,398 | 9,674 |
| (3,857) | (2,321) | (1,961) | (1,783) | (1,074) | 102 | 239 |
| 17,169 | 16,947 | 15,482 | 14,685 | 13,814 | 13,502 | 12,833 |
| 18,804 | 17,547 | 16,082 | 14,985 | 14,114 | 13,802 | 13,133 |
| 497 | 435 | 306 | 280 | 326 | 662 | 586 |
| 19,301 | 17,982 | 16,388 | 15,265 | 14,440 | 14,464 | 13,719 |
| $ 411,510 | $ 379,006 | $ 314,025 | $ 279,212 | $ 285,892 | $ 296,380 | $ 284,425 |

**T58** Consolidated Statement of Income

| For the year ended October 31 ($ millions) | **2011** | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Interest income | | | | |
| Loans | **$ 13,102** | $ 12,171 | $ 13,973 | $ 15,832 |
| Securities | **4,887** | 4,227 | 4,090 | 4,615 |
| Securities purchased under resale agreements | **377** | 201 | 390 | 786 |
| Deposits with banks | **346** | 292 | 482 | 1,083 |
| | **18,712** | 16,891 | 18,935 | 22,316 |
| Interest expenses | | | | |
| Deposits | **7,598** | 6,768 | 8,339 | 12,131 |
| Subordinated debentures | **315** | 289 | 285 | 166 |
| Capital instrument liabilities | **6** | 37 | 37 | 37 |
| Other | **1,523** | 1,176 | 1,946 | 2,408 |
| | **9,442** | 8,270 | 10,607 | 14,742 |
| Net interest income | **9,270** | 8,621 | 8,328 | 7,574 |
| Provision for credit losses | **1,046** | 1,239 | 1,744 | 630 |
| Net interest income after provision for credit losses | **8,224** | 7,382 | 6,584 | 6,944 |
| Other income | **8,018** | 6,884 | 6,129 | 4,302 |
| Net interest and other income | **16,242** | 14,266 | 12,713 | 11,246 |
| Non-interest expenses | | | | |
| Salaries and employee benefits | **5,399** | 4,647 | 4,344 | 4,109 |
| Other[1] | **4,165** | 3,535 | 3,575 | 3,187 |
| | **9,564** | 8,182 | 7,919 | 7,296 |
| Income before income taxes | **6,678** | 6,084 | 4,794 | 3,950 |
| Provision for income taxes | **1,410** | 1,745 | 1,133 | 691 |
| **Net income[2]** | **$ 5,268** | $ 4,339 | $ 3,661 | $ 3,259 |
| Net income attributable to non-controlling interests[2] | **93** | 100 | 114 | 119 |
| Net income attributable to equity holders of the Bank[2] | **5,175** | 4,239 | 3,547 | 3,140 |
| Preferred shareholders | **216** | 201 | 186 | 107 |
| Common shareholders | **$ 4,959** | $ 4,038 | $ 3,361 | $ 3,033 |
| Average number of common shares outstanding (millions): | | | | |
| Basic | **1,072** | 1,032 | 1,013 | 987 |
| Diluted | **1,074** | 1,034 | 1,016 | 993 |
| Earnings per common share (in dollars): | | | | |
| Basic | **$ 4.62** | $ 3.91 | $ 3.32 | $ 3.07 |
| Diluted | **$ 4.62** | $ 3.91 | $ 3.31 | $ 3.05 |
| Dividends per common share (in dollars) | **$ 2.05** | $ 1.96 | $ 1.96 | $ 1.92 |

(1) Other non-interest expenses include a loss on disposal of subsidiary operations in 2003 and 2002 of $31 and $237, respectively.

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

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| $ 13,985 | $ 11,575 | $ 9,236 | $ 8,480 | $ 9,073 | $ 9,635 | $ 11,530 |
| 4,680 | 4,124 | 3,104 | 2,662 | 2,859 | 3,087 | 3,062 |
| 1,258 | 1,102 | 817 | 594 | 872 | 1,073 | 1,519 |
| 1,112 | 881 | 646 | 441 | 442 | 573 | 872 |
| 21,035 | 17,682 | 13,803 | 12,177 | 13,246 | 14,368 | 16,983 |
| 10,850 | 8,589 | 5,755 | 4,790 | 5,222 | 5,519 | 8,233 |
| 116 | 130 | 134 | 112 | 139 | 203 | 303 |
| 53 | 53 | 53 | 164 | 182 | 158 | 136 |
| 2,918 | 2,502 | 1,990 | 1,410 | 1,735 | 1,971 | 2,247 |
| 13,937 | 11,274 | 7,932 | 6,476 | 7,278 | 7,851 | 10,919 |
| 7,098 | 6,408 | 5,871 | 5,701 | 5,968 | 6,517 | 6,064 |
| 270 | 216 | 230 | 390 | 893 | 2,029 | 1,425 |
| 6,828 | 6,192 | 5,641 | 5,311 | 5,075 | 4,488 | 4,639 |
| 5,392 | 4,800 | 4,529 | 4,320 | 4,015 | 3,942 | 4,071 |
| 12,220 | 10,992 | 10,170 | 9,631 | 9,090 | 8,430 | 8,710 |
| 3,983 | 3,768 | 3,488 | 3,452 | 3,361 | 3,344 | 3,220 |
| 3,011 | 2,675 | 2,555 | 2,410 | 2,370 | 2,630 | 2,442 |
| 6,994 | 6,443 | 6,043 | 5,862 | 5,731 | 5,974 | 5,662 |
| 5,226 | 4,549 | 4,127 | 3,769 | 3,359 | 2,456 | 3,048 |
| 1,063 | 872 | 847 | 786 | 777 | 594 | 869 |
| $ 4,163 | $ 3,677 | $ 3,280 | $ 2,983 | $ 2,582 | $ 1,862 | $ 2,179 |
| 118 | 98 | 71 | 75 | 160 | 154 | 102 |
| 4,045 | 3,579 | 3,209 | 2,908 | 2,422 | 1,708 | 2,077 |
| 51 | 30 | 25 | 16 | 16 | 16 | 16 |
| $ 3,994 | $ 3,549 | $ 3,184 | $ 2,892 | $ 2,406 | $ 1,692 | $ 2,061 |
| 989 | 988 | 998 | 1,010 | 1,010 | 1,009 | 1,001 |
| 997 | 1,001 | 1,012 | 1,026 | 1,026 | 1,026 | 1,018 |
| $ 4.04 | $ 3.59 | $ 3.19 | $ 2.87 | $ 2.38 | $ 1.68 | $ 2.06 |
| $ 4.01 | $ 3.55 | $ 3.15 | $ 2.82 | $ 2.34 | $ 1.65 | $ 2.02 |
| $ 1.74 | $ 1.50 | $ 1.32 | $ 1.10 | $ 0.84 | $ 0.73 | $ 0.62 |

**T59** Consolidated Statement of Changes in Shareholders' Equity

| For the year ended October 31 ($ millions) | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Preferred shares | | | | |
| Balance at beginning of year | **$ 3,975** | $ 3,710 | $ 2,860 | $ 1,635 |
| Issued | **409** | 265 | 850 | 1,225 |
| Balance at end of year | **4,384** | 3,975 | 3,710 | 2,860 |
| Common shares and contributed surplus | | | | |
| Common shares: | | | | |
| Balance at beginning of year | **5,750** | 4,946 | 3,829 | 3,566 |
| Issued | **2,586** | 804 | 1,117 | 266 |
| Purchased for cancellation | **–** | – | – | (3) |
| Balance at end of year | **8,336** | 5,750 | 4,946 | 3,829 |
| Contributed surplus: | | | | |
| Balance at beginning of year | **25** | – | – | – |
| Stock-based compensation | **71** | 25 | – | – |
| Balance at end of year | **96** | 25 | – | – |
| Total | **8,432** | 5,775 | 4,946 | 3,829 |
| Retained earnings | | | | |
| Balance at beginning of year | **21,932** | 19,916 | 18,549 | 17,460 |
| Adjustments | **–** | – | – | – |
| Net income attributable to equity holders of the Bank | **5,175** | 4,239 | 3,547 | 3,140 |
| Dividends: Preferred | **(216)** | (201) | (186) | (107) |
| Common | **(2,200)** | (2,023) | (1,990) | (1,896) |
| Purchase of shares and premium on redemption | **–** | – | – | (37) |
| Other | **(29)** | 1 | (4) | (11) |
| Balance at end of year | **24,662** | 21,932 | 19,916 | 18,549 |
| Accumulated other comprehensive income (loss) | | | | |
| Balance at beginning of year | **(4,051)** | (3,800) | (3,596) | (3,857) |
| Cumulative effect of adopting new accounting policies | **–** | – | 595[5] | – |
| Other comprehensive income (loss) | **(667)** | (251) | (799) | 261 |
| Balance at end of year | **(4,718)** | (4,051) | (3,800) | (3,596) |
| Non-controlling interests[6] | | | | |
| Balance at beginning of year | **579** | 554 | 502 | N/A |
| Interest in net income of subsidiaries | **93** | 100 | 114 | N/A |
| Effect of foreign exchange and others | **10** | (40) | (26) | N/A |
| Dividends | **(42)** | (35) | (36) | N/A |
| Balance at end of year | **640** | 579 | 554 | 502 |
| Total shareholders' equity at end of year | **$ 33,400** | $ 28,210 | $ 25,326 | $ 22,144 |

(1) Relates to the adoption of new financial instruments accounting standards.
(2) Relates to the adoption of new stock-based compensation accounting standard.
(3) Relates to the adoption of new goodwill accounting standard.
(4) Relates to the adoption of new corporate income taxes accounting standard.
(5) Relates to the adoption of the new accounting standard for impairment and classification of financial instruments. Refer to Note 1 of the Consolidated Financial Statements for details.
(6) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

**T60** Consolidated Statement of Comprehensive Income

| As at October 31 ($ millions) | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Net income[1] | **$ 5,268** | $ 4,339 | $ 3,661 | $ 3,259 |
| Other comprehensive income (loss), net of income taxes: | | | | |
| Net change in unrealized foreign currency translation gains (losses) | **(654)** | (591) | (1,736) | 2,368 |
| Net change in unrealized gains (losses) on available-for-sale securities | **(119)** | 278 | 894 | (1,588) |
| Net change in gains (losses) on derivative instruments designated as cash flow hedges | **106** | 62 | 43 | (519) |
| Other comprehensive income (loss) | **(667)** | (251) | (799) | 261 |
| Comprehensive income | **$ 4,601** | $ 4,088 | $ 2,862 | $ 3,520 |

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

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| $600 | $ 600 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 |
| 1,035 | – | 300 | – | – | – | – |
| 1,635 | 600 | 600 | 300 | 300 | 300 | 300 |
| 3,425 | 3,316 | 3,228 | 3,140 | 3,002 | 2,920 | 2,765 |
| 184 | 135 | 172 | 117 | 163 | 101 | 155 |
| (43) | (26) | (84) | (29) | (25) | (19) | – |
| 3,566 | 3,425 | 3,316 | 3,228 | 3,140 | 3,002 | 2,920 |
| – | 1 | 1 | 1 | – | – | – |
| – | (1) | – | – | 1 | – | – |
| – | – | 1 | 1 | 1 | – | – |
| 3,566 | 3,425 | 3,317 | 3,229 | 3,141 | 3,002 | 2,920 |
| 15,843 | 14,126 | 13,239 | 11,747 | 10,398 | 9,674 | 8,275 |
| (61)[(1)] | (25)[(2)] | – | – | – | (76)[(3)] | (39)[(4)] |
| 4,045 | 3,579 | 3,209 | 2,908 | 2,422 | 1,708 | 2,077 |
| (51) | (30) | (25) | (16) | (16) | (16) | (16) |
| (1,720) | (1,483) | (1,317) | (1,110) | (849) | (732) | (621) |
| (586) | (324) | (973) | (290) | (201) | (154) | – |
| (10) | – | (7) | – | (7) | (6) | (2) |
| 17,460 | 15,843 | 14,126 | 13,239 | 11,747 | 10,398 | 9,674 |
| (2,321) | (1,961) | (1,783) | (1,074) | 102 | 239 | 160 |
| 683 | – | – | – | – | – | – |
| (2,219) | (360) | (178) | (709) | (1,176) | (137) | 79 |
| (3,857) | (2,321) | (1,961) | (1,783) | (1,074) | 102 | 239 |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 497 | 435 | 306 | 280 | 326 | 662 | 586 |
| $ 19,301 | $ 17,982 | $ 16,388 | $ 15,265 | $ 14,440 | $ 14,464 | $ 13,719 |

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| $4,163 | $ 3,677 | $ 3,280 | $ 2,983 | $ 2,582 | $ 1,862 | $ 2,179 |
| (2,228) | (360) | (178) | (709) | (1,176) | (137) | 79 |
| (67) | – | – | – | – | – | – |
| 76 | – | – | – | – | – | – |
| (2,219) | (360) | (178) | (709) | (1,176) | (137) | 79 |
| $ 1,944 | $ 3,317 | $ 3,102 | $ 2,274 | $ 1,406 | $ 1,725 | $ 2,258 |

**T61** Other statistics

| For the year ended October 31 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Operating performance | | | | |
| Basic earnings per share ($) | **4.62** | 3.91 | 3.32 | 3.07 |
| Diluted earnings per share ($) | **4.62** | 3.91 | 3.31 | 3.05 |
| Return on equity (%)[1] | **18.8** | 18.3 | 16.7 | 16.7 |
| Productivity ratio (%)(TEB[1]) | **54.4** | 51.8 | 53.7 | 59.4 |
| Return on assets [2](%) | **0.93** | 0.84 | 0.71 | 0.72 |
| Net interest margin on total average assets (%)(TEB[1]) | **1.68** | 1.73 | 1.68 | 1.75 |
| Capital measures[3] | | | | |
| Tier 1 capital ratio (%) | **12.2** | 11.8 | 10.7 | 9.3 |
| Total capital ratio (%) | **13.9** | 13.8 | 12.9 | 11.1 |
| Tangible common equity to risk-weighted assets[1), (4] (%) | **9.6** | 9.7 | 8.3 | 6.6 |
| Assets-to-capital multiple | **16.6** | 17.0 | 16.6 | 18.0 |
| Common share information | | | | |
| Share price ($): | | | | |
| High | **61.28** | 55.76 | 49.19 | 54.00 |
| Low | **49.00** | 44.12 | 23.99 | 35.25 |
| Close | **52.53** | 54.67 | 45.25 | 40.19 |
| Number of shares outstanding (millions) | **1,089** | 1,043 | 1,025 | 992 |
| Dividends per share ($) | **2.05** | 1.96 | 1.96 | 1.92 |
| Dividend yield (%)[5] | **3.7** | 3.9 | 5.4 | 4.3 |
| Price to earnings multiple[6] | **11.3** | 14.0 | 13.6 | 13.1 |
| Book value per common share ($) | **26.06** | 22.68 | 20.55 | 18.94 |
| Other information | | | | |
| Average total assets ($ millions) | **568,859** | 515,991 | 513,149 | 455,539 |
| Number of branches and offices | **2,926** | 2,784 | 2,686 | 2,672 |
| Number of employees | **75,362** | 70,772 | 67,802 | 69.049 |
| Number of automated banking machines | **6,260** | 5,978 | 5,778 | 5,609 |

(1) Non-GAAP measure. Refer to non-GAAP measures on page 29.
(2) Net income, used in the calculation of return on assets, no longer includes non-controlling interest. Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been restated to conform with current period presentation.
(3) Effective November 1, 2007, regulatory capital ratios are determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.
(4) Amounts have been restated to reflect the revised definition of tangible common equity to risk-weighted assets. Refer to page 29 for discussion of non-GAAP measures.
(5) Based on the average of the high and low common share price for the year.
(6) Based on the closing common share price.

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| | | | | | | |
| 4.04 | 3.59 | 3.19 | 2.87 | 2.38 | 1.68 | 2.06 |
| 4.01 | 3.55 | 3.15 | 2.82 | 2.34 | 1.65 | 2.02 |
| 22.0 | 22.1 | 20.9 | 19.9 | 17.6 | 13.0 | 17.3 |
| 53.7 | 55.3 | 56.3 | 56.9 | 55.9 | 55.7 | 54.6 |
| 1.03 | 1.05 | 1.06 | 1.05 | 0.89 | 0.63 | 0.80 |
| 1.89 | 1.95 | 2.00 | 2.10 | 2.16 | 2.29 | 2.32 |
| | | | | | | |
| 9.3 | 10.2 | 11.1 | 11.5 | 10.8 | 9.9 | 9.3 |
| 10.5 | 11.7 | 13.2 | 13.9 | 13.2 | 12.7 | 13.0 |
| 7.4 | 8.3 | 9.3 | 9.7 | 8.8 | 8.3 | 7.8 |
| 18.2 | 17.1 | 15.1 | 13.8 | 14.4 | 14.5 | 13.5 |
| | | | | | | |
| 54.73 | 49.80 | 44.22 | 40.00 | 33.70 | 28.10 | 25.25 |
| 46.70 | 41.55 | 36.41 | 31.08 | 22.28 | 21.01 | 18.65 |
| 53.48 | 49.30 | 42.99 | 39.60 | 32.74 | 22.94 | 21.93 |
| 984 | 990 | 990 | 1,009 | 1,011 | 1,008 | 1,008 |
| 1.74 | 1.50 | 1.32 | 1.10 | 0.84 | 0.73 | 0.62 |
| 3.4 | 3.3 | 3.3 | 3.1 | 3.0 | 3.0 | 2.8 |
| 13.2 | 13.7 | 13.5 | 13.8 | 13.8 | 13.7 | 10.6 |
| 17.45 | 17.13 | 15.64 | 14.56 | 13.67 | 13.39 | 12.74 |
| | | | | | | |
| 403,475 | 350,709 | 309,374 | 283,986 | 288,513 | 296,852 | 271,843 |
| 2,331 | 2,191 | 1,959 | 1,871 | 1,850 | 1,847 | 2,005 |
| 58,113 | 54,199 | 46,631 | 43,928 | 43,986 | 44,633 | 46,804 |
| 5,283 | 4,937 | 4,449 | 4,219 | 3,918 | 3,693 | 3,761 |

# Management's Report on Internal Control Over Financial Reporting

The management of The Bank of Nova Scotia (the Bank) is responsible for establishing and maintaining adequate internal control over financial reporting, and have designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to U.S. GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Bank's internal control over financial reporting as of October 31, 2011, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, who have audited the consolidated financial statements, have also audited internal control over financial reporting and have issued their report below.

Rick Waugh
President and Chief Executive Officer

Luc Vanneste
Executive Vice-President and
Chief Financial Officer

Toronto, Canada
December 2, 2011

# Report of Independent Registered Public Accounting Firm

To the Shareholders of The Bank of Nova Scotia

We have audited The Bank of Nova Scotia's internal control over financial reporting as of October 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank of Nova Scotia's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on The Bank of Nova Scotia's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Bank of Nova Scotia maintained, in all material respects, effective internal control over financial reporting as of October 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally acceptable accounting standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Bank of Nova Scotia as of October 31, 2011 and October 31, 2010 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended October 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information, and our report dated December 2, 2011 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

KPMG LLP
Chartered Accountants, Licensed Public Accountants
December 2, 2011
Toronto, Canada

# Consolidated Financial Statements

## Table of Contents


110 Management's Responsibility for Financial Information
111 Independent Auditors' Report of Registered Public Accounting Firm
112 Consolidated Balance Sheet
113 Consolidated Statement of Income
114 Consolidated Statement of Changes in Shareholders' Equity
114 Consolidated Statement of Comprehensive Income
115 Consolidated Statement of Cash Flows
116 Notes to the 2011 Consolidated Financial Statements

# Management's Responsibility for Financial Information

The management of The Bank of Nova Scotia (the Bank) is responsible for the integrity and fair presentation of the financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements also comply with the accounting requirements of the Bank Act.

The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgement of management. Financial information presented elsewhere in this Annual Report is consistent with that shown in the consolidated financial statements.

Management has always recognized the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements fairly presenting the financial condition of the Bank. In this regard, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized. The system is augmented by written policies and procedures, the careful selection and training of qualified staff, the establishment of organizational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and guidelines of business conduct throughout the Bank.

Management, under the supervision of and the participation of the Chief Executive Officer and the Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting in line with Canadian and U.S. securities regulations.

The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic audits of all aspects of the Bank's operations. As well, the Bank's Chief Auditor has full and free access to, and meets periodically with the Audit and Conduct Review Committee of the Board of Directors. In addition, the Bank's compliance function maintains policies, procedures and programs directed at ensuring compliance with regulatory requirements, including conflict of interest rules.

The Office of the Superintendent of Financial Institutions Canada, which is mandated to protect the rights and interests of the depositors and creditors of the Bank, examines and enquires into the business and affairs of the Bank, as deemed necessary, to determine whether the provisions of the Bank Act are being complied with, and that the Bank is in a sound financial condition.

The Audit and Conduct Review Committee, composed entirely of outside directors, reviews the consolidated financial statements with both management and the independent auditors before such statements are approved by the Board of Directors and submitted to the shareholders of the Bank.

The Audit and Conduct Review Committee reviews and reports their findings to the Board of Directors on all related party transactions that may have a material impact on the Bank.

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, have audited the consolidated balance sheets of the Bank as at October 31, 2011 and 2010 and the consolidated statement of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended October 31, 2011 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and have expressed their opinions upon completion of such audits in the following report to the shareholders. The Shareholders' Auditors have full and free access to, and meet periodically with, the Audit and Conduct Review Committee to discuss their audit, including any findings as to the integrity of the Bank's accounting, financial reporting and related matters.

Rick Waugh
President and Chief Executive Officer

Luc Vanneste
Executive Vice-President
and Chief Financial Officer

Toronto, Canada
December 2, 2011

# Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders of The Bank of Nova Scotia

We have audited the accompanying consolidated financial statements of The Bank of Nova Scotia, which comprise the consolidated balance sheets as at October 31, 2011 and October 31, 2010, the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Bank of Nova Scotia as at October 31, 2011 and October 31, 2010, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended October 31, 2011 in accordance with Canadian generally accepted accounting principles.

*Other Matter*
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Bank of Nova Scotia's internal control over financial reporting as of October 31, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 2, 2011 expressed an unmodified (unqualified) opinion on the effectiveness of The Bank of Nova Scotia's internal control over financial reporting.

KPMG LLP
Chartered Accountants, Licensed Public Accountants
December 2, 2011
Toronto, Canada

## Consolidated Balance Sheet

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| Cash resources | | |
| Cash and non-interest-bearing deposits with banks | **$ 4,294** | $ 3,730 |
| Interest-bearing deposits with banks | **40,928** | 35,800 |
| Precious metals | **9,249** | 6,497 |
| | **54,471** | 46,027 |
| Securities (Note 3) | | |
| Trading | **63,327** | 64,684 |
| Available-for-sale | **52,055** | 47,228 |
| Equity accounted investments | **4,491** | 4,651 |
| | **119,873** | 116,563 |
| Securities purchased under resale agreements | **34,582** | 27,920 |
| Loans (Note 4) | | |
| Residential mortgages | **123,082** | 120,482 |
| Personal and credit cards | **62,764** | 62,548 |
| Business and government | **115,673** | 103,981 |
| | **301,519** | 287,011 |
| Allowance for credit losses (Note 5 (b)) | **2,817** | 2,787 |
| | **298,702** | 284,224 |
| Other | | |
| Customers' liability under acceptances | **8,172** | 7,616 |
| Derivative instruments (Note 28 (d)) | **37,208** | 26,852 |
| Land, buildings and equipment (Note 7) | **2,552** | 2,450 |
| Goodwill (Note 8) | **4,377** | 3,050 |
| Other intangible assets (Note 8) | **3,287** | 589 |
| Other assets (Note 9) | **12,032** | 11,366 |
| | **67,628** | 51,923 |
| | **$ 575,256** | $ 526,657 |
| **Liabilities and shareholders' equity** | | |
| Deposits (Note 10) | | |
| Personal | **$ 133,025** | $ 128,850 |
| Business and government | **242,006** | 210,687 |
| Banks | **21,345** | 22,113 |
| | **396,376** | 361,650 |
| Other | | |
| Acceptances | **8,172** | 7,616 |
| Obligations related to securities sold under repurchase agreements | **46,062** | 40,286 |
| Obligations related to securities sold short | **15,450** | 21,519 |
| Derivative instruments (Note 28 (d)) | **40,889** | 31,990 |
| Other liabilities (Note 11) | **28,984** | 28,947 |
| | **139,557** | 130,358 |
| Subordinated debentures (Note 12) | **5,923** | 5,939 |
| Capital instrument liabilities (Note 13) | **–** | 500 |
| Shareholders' equity | | |
| Preferred shares (Note 14) | **4,384** | 3,975 |
| Common shareholders' equity | | |
| Common shares and contributed surplus (Note 15) | **8,432** | 5,775 |
| Retained earnings | **24,662** | 21,932 |
| Accumulated other comprehensive loss (Note 17) | **(4,718)** | (4,051) |
| Total common shareholders' equity | **28,376** | 23,656 |
| Total equity attributable to equity holders of the Bank | **32,760** | 27,631 |
| Non-controlling interests[(1)] | **640** | 579 |
| | **33,400** | 28,210 |
| | **$ 575,256** | $ 526,657 |

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

John T. Mayberry
Chairman of the Board

Rick Waugh
President and Chief Executive Officer

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

## Consolidated Statement of Income

| For the year ended October 31 ($ millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Interest income** | | | |
| Loans | **$ 13,102** | $ 12,171 | $ 13,973 |
| Securities | **4,887** | 4,227 | 4,090 |
| Securities purchased under resale agreements | **377** | 201 | 390 |
| Deposits with banks | **346** | 292 | 482 |
| | **18,712** | 16,891 | 18,935 |
| **Interest expenses** | | | |
| Deposits | **7,598** | 6,768 | 8,339 |
| Subordinated debentures | **315** | 289 | 285 |
| Capital instrument liabilities | **6** | 37 | 37 |
| Other | **1,523** | 1,176 | 1,946 |
| | **9,442** | 8,270 | 10,607 |
| Net interest income | **9,270** | 8,621 | 8,328 |
| Provision for credit losses (Note 5 (b)) | **1,046** | 1,239 | 1,744 |
| Net interest income after provision for credit losses | **8,224** | 7,382 | 6,584 |
| **Other income** | | | |
| Card revenues | **469** | 426 | 424 |
| Deposit and payment services | **922** | 883 | 905 |
| Mutual funds | **1,100** | 582 | 371 |
| Investment management, brokerage and trust services | **1,013** | 781 | 728 |
| Credit fees | **868** | 831 | 866 |
| Trading revenues | **740** | 1,016 | 1,057 |
| Underwriting fees and other commissions | **624** | 561 | 620 |
| Foreign exchange other than trading | **368** | 337 | 373 |
| Net gain (loss) on securities, other than trading (Note 3 (d)) | **239** | 355 | (412) |
| Securitization revenues | **236** | 124 | 409 |
| Other | **1,439** | 988 | 788 |
| | **8,018** | 6,884 | 6,129 |
| Net interest and other income | **16,242** | 14,266 | 12,713 |
| **Non-interest expenses** | | | |
| Salaries and employee benefits | **5,399** | 4,647 | 4,344 |
| Premises and technology | **1,719** | 1,526 | 1,543 |
| Communications | **344** | 340 | 346 |
| Advertising and business development | **429** | 364 | 307 |
| Professional | **262** | 224 | 216 |
| Business and capital taxes | **183** | 171 | 177 |
| Other | **1,228** | 910 | 986 |
| | **9,564** | 8,182 | 7,919 |
| Income before the undernoted | **6,678** | 6,084 | 4,794 |
| Provision for income taxes (Note 19) | **1,410** | 1,745 | 1,133 |
| **Net income**(1) | **$ 5,268** | $ 4,339 | $ 3,661 |
| Net income attributable to non-controlling interests(1) | **93** | 100 | 114 |
| Net income attributable to equity holders of the Bank(1) | **5,175** | 4,239 | 3,547 |
| Preferred shareholders | **216** | 201 | 186 |
| Common shareholders | **4,959** | 4,038 | 3,361 |
| Average number of common shares outstanding (millions) (Note 21): | | | |
| Basic | **1,072** | 1,032 | 1,013 |
| Diluted | **1,074** | 1,034 | 1,016 |
| Earnings per common share (in dollars)(2) (Note 21): | | | |
| Basic | **$ 4.62** | $ 3.91 | $ 3.32 |
| Diluted | **$ 4.62** | $ 3.91 | $ 3.31 |
| Dividends per common share (in dollars) | **$ 2.05** | $ 1.96 | $ 1.96 |

(1) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.
(2) The calculation of earnings per share is based on full dollar and share amounts.

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

## Consolidated Statement of Changes in Shareholders' Equity

| For the year ended October 31 ($ millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Preferred shares** (Note 14) | | | |
| Balance at beginning of year | **$ 3,975** | $ 3,710 | $ 2,860 |
| Issued | **409** | 265 | 850 |
| Balance at end of year | **4,384** | 3,975 | 3,710 |
| **Common shares and contributed surplus** | | | |
| Common shares (Note 15): | | | |
| Balance at beginning of year | **5,750** | 4,946 | 3,829 |
| Issued | **2,586** | 804 | 1,117 |
| Balance at end of year | **8,336** | 5,750 | 4,946 |
| Contributed surplus: | | | |
| Balance at beginning of year | **25** | – | – |
| Stock-based compensation (Note 18) | **71** | 25 | – |
| Balance at end of year | **96** | 25 | – |
| Total | **8,432** | 5,775 | 4,946 |
| **Retained earnings** | | | |
| Balance at beginning of year | **21,932** | 19,916 | 18,549 |
| Net income attributable to equity holders of the Bank | **5,175** | 4,239 | 3,547 |
| Dividends: Preferred | **(216)** | (201) | (186) |
| Common | **(2,200)** | (2,023) | (1,990) |
| Other | **(29)** | 1 | (4) |
| Balance at end of year[1] | **24,662** | 21,932 | 19,916 |
| **Accumulated other comprehensive loss** | | | |
| Balance at beginning of year as previously reported | **(4,051)** | (3,800) | (3,596) |
| Cumulative effect of adopting new accounting policies | **–** | – | 595[2] |
| Balance at beginning of year as restated | **(4,051)** | (3,800) | (3,001) |
| Other comprehensive loss (Note 17) | **(667)** | (251) | (799) |
| Balance at end of year | **(4,718)** | (4,051) | (3,800) |
| **Non-controlling interests**[3] | | | |
| Balance at beginning of year | **579** | 554 | 502 |
| Interest in net income of subsidiaries | **93** | 100 | 114 |
| Effects of foreign exchange and others | **10** | (40) | (26) |
| Dividends | **(42)** | (35) | (36) |
| Balance at end of year | **640** | 579 | 554 |
| Total shareholders' equity at end of year | **$ 33,400** | $ 28,210 | $ 25,326 |

(1) Includes undistributable retained earnings of $34 (2010 – $28; 2009 – $26) of a foreign associated corporation, which are subject to local regulatory restriction.
(2) The new accounting policy, adopted in 2009, relates to the classification and impairment of financial assets. Refer to changes in accounting standards prior to November 1, 2009, in Note 1.
(3) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

## Consolidated Statement of Comprehensive Income

| For the year ended October 31 ($ millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net income[1] | **$ 5,268** | $ 4,339 | $ 3,661 |
| Other comprehensive income (loss), net of income taxes (Note 17): | | | |
| Net change in unrealized foreign currency translation losses | **(654)** | (591) | (1,736) |
| Net change in unrealized gains (losses) on available-for-sale securities | **(119)** | 278 | 894 |
| Net change in gains on derivative instruments designated as cash flow hedges | **106** | 62 | 43 |
| Other comprehensive income (loss) | **(667)** | (251) | (799) |
| Comprehensive income | **$ 4,601** | $ 4,088 | $ 2,862 |
| Comprehensive income attributable to: | | | |
| Common shareholders of the Bank | **4,292** | 3,787 | 2,562 |
| Preferred shareholders of the Bank | **216** | 201 | 186 |
| Non-controlling interests | **93** | 100 | 114 |
| Comprehensive income | **$ 4,601** | $ 4,088 | $ 2,862 |

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

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

## Consolidated Statement of Cash Flows

| Sources (uses) of cash flows for the year ended October 31 ($ millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income[1] | **$ 5,268** | $ 4,339 | $ 3,661 |
| Adjustments to determine net cash flows from (used in) operating activities: | | | |
| Depreciation and amortization | **411** | 334 | 330 |
| Provision for credit losses | **1,046** | 1,239 | 1,744 |
| Future income taxes | **201** | 557 | 162 |
| Net gain (loss) on securities, other than trading | **(239)** | (355) | 412 |
| Gains resulting from new acquisition-related accounting standards | **(286)** | – | – |
| Changes in operating assets and liabilities: | | | |
| Net accrued interest receivable and payable | **(176)** | 186 | (229) |
| Trading securities | **1,118** | (7,052) | (10,898) |
| Derivative assets | **(10,772)** | (2,642) | 17,320 |
| Derivative liabilities | **9,509** | 4,353 | (12,009) |
| Other, net[1] | **(5,017)** | (3,829) | (11,472) |
| | **1,063** | (2,870) | (10,979) |
| **Cash flows from financing activities** | | | |
| Deposits | **36,850** | 14,248 | 17,031 |
| Obligations related to securities sold under repurchase agreements | **6,554** | 4,104 | 1,109 |
| Obligations related to securities sold short | **(5,939)** | 6,872 | 3,165 |
| Subordinated debentures issued | **–** | – | 2,000 |
| Subordinated debentures redemptions/repayments | **–** | (11) | (359) |
| Capital instruments liabilities redemptions/repayments | **(500)** | – | – |
| Preferred shares issued | **–** | 265 | 600 |
| Common shares issued | **736** | 753 | 585 |
| Cash dividends paid | **(2,416)** | (2,224) | (2,176) |
| Other, net[1] | **(1,947)** | 5,107 | (1,857) |
| | **33,338** | 29,114 | 20,098 |
| **Cash flows from investing activities** | | | |
| Interest-bearing deposits with banks | **(4,875)** | (3,383) | (5,781) |
| Securities purchased under resale agreements | **(7,462)** | (9,789) | 980 |
| Loans, excluding securitizations | **(37,466)** | (26,725) | (12,583) |
| Loan securitizations | **8,253** | 3,762 | 11,879 |
| Securities, other than trading | | | |
| Purchases | **(23,238)** | (28,125) | (40,197) |
| Maturities | **13,775** | 11,307 | 7,422 |
| Sales | **18,145** | 28,214 | 31,985 |
| Land, buildings and equipment, net of disposals | **(366)** | (304) | (199) |
| Other, net[2] | **(544)** | (690) | (1,635) |
| | **(33,778)** | (25,733) | (8,129) |
| Effect of exchange rate changes on cash and cash equivalents | **(59)** | (136) | (209) |
| **Net change in cash and cash equivalents** | **564** | 375 | 781 |
| Cash and cash equivalents at beginning of year | **3,730** | 3,355 | 2,574 |
| **Cash and cash equivalents at end of year[3]** | **$ 4,294** | $ 3,730 | $ 3,355 |
| Cash disbursements made for: | | | |
| Interest | **$ 9,575** | $ 8,415 | $ 11,138 |
| Income taxes | **$ 1,304** | $ 1,795 | $ 1,234 |

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

(2) Comprises investments in subsidiaries, associated corporations and business units, and the purchase of assets related to these investments, which are net of non-cash consideration consisting of common shares issued from treasury of $1,796 (2010 – nil; 2009 – $523), net of cash and cash equivalents at the date of acquisition of $75 (2010 – $203; 2009 – $4), and net of non-cumulative preferred shares issued of $409 (2010 – nil; 2009 – $250).

(3) Represents cash and non-interest-bearing deposits with banks.

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

Notes to the 2011

# Consolidated Financial Statements

## Table of Contents


| Page | Note | |
|---|---|---|
| 117 | 1. | Significant accounting policies |
| 122 | 2. | Future accounting changes |
| 124 | 3. | Securities |
| 126 | 4. | Loans |
| 129 | 5. | Impaired loans and allowance for credit losses |
| 130 | 6. | Variable interest entities |
| 131 | 7. | Land, buildings and equipment |
| 131 | 8. | Goodwill and other intangible assets |
| 131 | 9. | Other assets |
| 132 | 10. | Deposits |
| 132 | 11. | Other liabilities |
| 132 | 12. | Subordinated debentures |
| 133 | 13. | Capital instrument liabilities, trust securities and trust subordinated notes |
| 135 | 14. | Preferred shares |
| 137 | 15. | Common shares |
| 137 | 16. | Capital management |
| 138 | 17. | Accumulated other comprehensive income (loss) |
| 139 | 18. | Stock-based compensation |
| 142 | 19. | Corporate income taxes |
| 144 | 20. | Employee future benefits |
| 146 | 21. | Earnings per common share |
| 146 | 22. | Related party transactions |
| 146 | 23. | Segmented results of operations |
| 150 | 24. | Guarantees, commitments and contingent liabilities |
| 152 | 25. | Financial instruments – risk management |
| 159 | 26. | Financial instruments – fair value |
| 161 | 27. | Financial instruments designated as trading |
| 162 | 28. | Derivative instruments |
| 167 | 29. | Acquisitions |
| 168 | 30. | Reconciliation of Canadian and United States generally accepted accounting principles (GAAP) |

## 1 Significant accounting policies

The consolidated financial statements of The Bank of Nova Scotia (the Bank) have been prepared in accordance with Section 308 of the Bank Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting policies conform, in all material respects, to GAAP. In addition, Note 30 describes and reconciles the significant measurement differences between Canadian and U.S. GAAP affecting the accompanying consolidated financial statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Key areas where management has made difficult, complex or subjective judgements, often as a result of matters that are inherently uncertain, include those relating to the allowance for credit losses, the fair value of financial instruments, corporate income taxes, pensions and other employee future benefits, other-than-temporary impairment of available-for-sale securities, the determination of the primary beneficiary of a variable interest entity (VIE), goodwill and other indefinite life intangibles impairment, and contingent liabilities. Actual results could differ from these and other estimates.

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

### Changes in accounting standards and policies

*Business combinations, consolidated financial statements, and non-controlling interests*

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests. These standards are aligned with International Financial Reporting Standards (IFRS) and are effective for periods beginning on or after January 1, 2011, with earlier adoption permitted. If an entity elects to early adopt, all three standards are required to be adopted concurrently.

The business combination standard addresses the valuation of the identified assets and liabilities acquired in a business combination and the date at which the valuations should be determined. The other two standards are revised to ensure that the requirements embedded in the business combination standards are applied appropriately to the preparation of consolidated financial statements and the accounting for non-controlling interests after the acquisition date.

The Bank has early adopted all three standards effective November 1, 2010, and all business acquisitions that occurred from November 1, 2010 have been accounted for under the revised standards.

The key principle underlying the business combinations standard is that all acquisitions be measured at fair value on the acquisition date. The key changes in the standards are:

- The acquisition accounting is at fair value (under GAAP prior to adoption, only the Bank's proportionate share of fair value adjustments were accounted for);
- Non-controlling interests are measured at fair value (excludes proportionate share of goodwill) and treated as equity;
- Acquisition-related costs and restructuring costs are expensed as incurred while prior GAAP permitted some to be set up at acquisition date;
- Contingent consideration and other contingent liabilities, if any, are recorded at fair value on acquisition and subsequent changes in fair value are recorded in income;
- When the purchase consideration is in the form of equity shares of the acquirer, they are measured at fair value at the acquisition date, rather than the prior GAAP requirement which is the announcement date; and
- Step-acquisitions are accounted for at fair value allowing for a gain/loss to be recognized in income on the date of the transaction due to revaluation of the original investment.

The reclassifications relating to non-controlling interests were as follows:

- Non-controlling interests have been reclassified from liabilities to equity in the Consolidated Balance Sheet.
- Non-controlling interests' portion of income is no longer a deduction when calculating the net income in the Consolidated Statement of Income. Net income is now apportioned between the Bank's equity holders and non-controlling interests.
- Prior period information has been reclassified to conform with current period presentation.

The adoption of these new accounting standards has resulted in a net gain of $286 million being recorded in the Consolidated Statement of Income. The gain arose substantially from accounting for the Bank's additional investment in DundeeWealth Inc. (DundeeWealth). This additional investment was considered a step-acquisition and accounted for on a fair value basis resulting in a net gain of $260 million from the revaluation of the Bank's original 19% investment in DundeeWealth. The remaining $26 million gain related to the acquisition accounting for a recent acquisition which was purchased at a price lower than fair value. The new standards require negative goodwill to be recognized in income without first reducing non monetary assets, resulting in a higher gain in income under the new standards. Under prior GAAP $26 million would have been recorded as negative goodwill. With the change, the total negative goodwill recognized in income was $52 million.

The adoption of new accounting standards, resulted in additional purchase consideration of approximately $350 million on the acquisition of DundeeWealth. The increase was due primarily to the following:

- The gain from the revaluation of the original investment, is considered part of the purchase consideration; and
- The common shares issued by the Bank as consideration for the acquisition were valued at acquisition date price versus announcement date price as per prior GAAP (incremental $110 million).

### Prior year changes in accounting standards and policies

There were no changes to accounting policies in the prior fiscal year.

### Changes in accounting standards prior to November 1, 2009

*Classification and impairment of financial assets*

In August 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Recognition and Measurement standard to achieve substantial consistency with International Financial Reporting Standards (IFRS). The amendments were effective for the Bank commencing November 1, 2008 and adopted the definition of loans and receivables from IFRS. The definition of loans and receivables allows debt securities that are not quoted in an active market to be classified as loans and carried at amortized cost. The amendments require that only credit-related impairment charges be recognized in the Consolidated Statement of Income for debt securities carried at amortized cost. Impairment charges for debt securities classified as loans are recorded through the

provision for credit losses. The reversal of impairment charges through the Consolidated Statement of Income for debt instruments classified as available-for-sale is allowed.

The Bank reclassified certain securities not quoted in an active market and not managed on a fair value basis to loans measured at amortized cost. Impairment of debt securities classified as loans are assessed and recorded in accordance with the Bank's accounting policies for Loans and Allowance for Credit Losses.

In accordance with these amendments, changes were made effective November 1, 2008. Periods prior to November 1, 2008 were not restated as a result of implementing these amendments.

The following table summarizes the impact of the reclassifications as at November 1, 2008:

| ($ millions)<br>Balance sheet category | Increase/<br>(Decrease) |
|---|---|
| Securities | $(8,529) |
| Loans | 9,447 |
| Future income tax assets (Other assets) | (323) |
| Accumulated other comprehensive income (after-tax) | 595 |

## Basis of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Bank and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by the Bank, which are normally corporations in which the Bank owns more than 50% of the voting shares.

Investments where the Bank has significant influence, which is normally, but not always, evidenced by direct or indirect ownership of between 20% and 50% of the voting shares, are accounted for using the equity method and are recorded as equity accounted investments in the Consolidated Balance Sheet. The Bank's share of earnings of such corporations is included in interest income – securities or other income, as appropriate, in the Consolidated Statement of Income.

The Bank consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; and/or (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both.

## Translation of foreign currencies

Foreign currency monetary assets and liabilities of the Bank's integrated foreign operations and all foreign currency denominated assets and liabilities of its self-sustaining foreign operations are translated into Canadian dollars at rates prevailing at the end of the financial period. Foreign currency non-monetary assets and liabilities of the Bank's integrated foreign operations are translated into Canadian dollars at historical rates.

Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining operations, together with any gains or losses arising from hedges of those net investment positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains/losses in the Consolidated Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains or losses thereon in accumulated other comprehensive income are reclassified to the Consolidated Statement of Income.

Translation gains and losses arising in the Bank's integrated foreign operations, as well as those arising from self-sustaining foreign operations in highly inflationary environments, if any, are included in other income – trading revenues in the Consolidated Statement of Income.

Revenues and expenses denominated in foreign currencies are translated using average exchange rates, except for depreciation and amortization of foreign currency denominated buildings, equipment and leasehold improvements of the Bank's integrated foreign operations, which are translated using historical rates.

Unrealized foreign currency translation gains and losses arising from available-for-sale financial assets are included in other comprehensive income as unrealized gains/losses on available-for-sale securities until realized, at which time they are reclassified from accumulated other comprehensive income to the Consolidated Statement of Income.

## Precious metals

Precious metals are carried at fair value and are included in cash resources in the Consolidated Balance Sheet. The liability arising from outstanding certificates is also carried at fair value and included in other liabilities in the Consolidated Balance Sheet.

## Securities

Securities are categorized as available-for-sale, trading, held-to-maturity or equity accounted investments. Securities designated as available-for-sale are recorded at fair value with unrealized gains and losses recorded in other comprehensive income until realized, at which time they are recorded in the Consolidated Statement of Income. Available-for-sale equity securities that do not have a quoted price in an active market are recorded at cost.

Premiums, discounts and related transaction costs on available-for-sale debt securities are amortized over the expected life of the instrument to interest income – securities in the Consolidated Statement of Income using the effective interest method. When there has been a decline in value of available-for-sale debt or equity instrument that is other than temporary, the carrying value of the securities is reduced to fair value. Such reductions, if any, together with realized gains and losses on disposals, which are determined on an average cost basis, are reclassified from other comprehensive income and included in other income – net gain (loss) on securities, other than trading in the Consolidated Statement of Income.

Interest income on these debt securities is recognized thereafter using the revised effective interest rate applicable. Recoveries in fair value due to events occurring after the date of impairment are included in net income to a maximum of the original impairment charge. Prior to fiscal 2009, these recoveries in fair value were included in other comprehensive income.

Trading securities are those securities intended to be held for a short period of time and are carried at fair value. Gains and losses realized on

disposal and unrealized gains and losses due to market fluctuations are included in other income – trading revenues in the Consolidated Statement of Income.

Debt securities which are not trading securities or have not been designated as available-for-sale, and that are not quoted in an active market are classified as loans. Debt securities classified as loans are carried at amortized cost.

The Bank accounts for the purchase and sale of securities using settlement date accounting for purposes of the Consolidated Balance Sheet and the Consolidated Statement of Income.

### Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis in the Consolidated Statement of Income.

### Obligations related to securities sold short

The Bank's obligation to deliver securities sold that were not owned at the time of sale is recorded at fair value. Realized and unrealized gains and losses are recorded in other income – trading revenues in the Consolidated Statement of Income. Interest expense accruing on debt securities sold short is recorded in interest expense in the Consolidated Statement of Income.

### Transactions costs

The transaction costs relating to non-trading financial assets and non-trading financial liabilities are capitalized and, where applicable, these amounts are recognized in net interest income over the expected life of the instrument using the effective interest method. Transaction costs relating to trading financial assets and trading financial liabilities are immediately recognized in other income-trading revenue in the Consolidated Statement of Income.

### Loans

The definition of loans includes debt instruments that are not quoted in an active market and have fixed or determinable cash flows. As a result, certain debt securities which are not classified as trading securities or have not been designated as available-for-sale, and are not quoted in an active market are classified as loans on the Consolidated Balance Sheet.

Loans are accounted for at amortized cost, except those classified or designated as trading, which are carried at fair value.

Loans transacted after October 31, 2009 that are purchased to economically hedge credit derivatives transacted for customers are classified as trading loans, and those outstanding as at October 31, 2009 are designated as trading (see Notes 4 and 27, respectively).

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in other assets in the Consolidated Balance Sheet. Loan origination costs are deferred and amortized into income using the effective interest method over the expected term of the loan. Loan fees are recognized in interest income over the appropriate lending or commitment period. Mortgage prepayment fees are recognized in interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized using the effective interest method over the remaining period of the original mortgage. Loan syndication fees are included in credit fees in other income.

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

When a loan is classified as impaired, recognition of interest ceases. Interest received on impaired loans is credited to the carrying value of the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Foreclosed assets meeting specified criteria are considered to be held for sale and are recorded at fair value less costs to sell. If the specified criteria are not met, the asset is considered to be held for use, measured initially at fair value and accounted for in the same manner as a similar asset acquired in the normal course of business.

### Allowance for credit losses

The Bank maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all incurred credit-related losses in its portfolio of the following on-and off-balance sheet items: deposits with banks, securities purchased under resale agreements, loans, acceptances and other indirect credit commitments, such as letters of credit and guarantees. The allowance for credit losses consists of specific allowances, general allowance and a sectoral allowance which are reviewed on a regular basis. Full or partial write-offs of loans are generally recorded when management believes there is no realistic prospect of full recovery. Actual write-offs, net of recoveries, are deducted from the allowance for credit losses.

*Specific allowances*

Specific allowances, except those relating to credit card loans, residential mortgages and most personal loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the provision for credit losses in the Consolidated Statement of Income. Specific allowances for credit card loans, residential mortgages and most personal loans are calculated using a formula method taking into account recent loss experience. The allowance for credit losses against on-balance sheet items is reflected as a reduction of the related asset category, and allowances relating to off-balance sheet items are included in other liabilities in the Consolidated Balance Sheet.

*General allowance*
The general allowance is established against the loan portfolio in respect of the Bank's core business lines where prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis.

The general allowance for business and government loans is underpinned by a risk rating process in which internal risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. With the internal risk ratings as the foundation, the allowance is initially calculated through the application of migration and default statistics by risk rating, loss severity in the event of default, and exposure at default patterns within each of the business line portfolios. Based upon recent observable data, senior management forms a judgement whether adjustments are necessary to the initially calculated (quantitative) allowance and the amount of any such adjustments. In making this judgement, management considers observable factors such as economic trends and business conditions, portfolio concentrations, and trends in volumes and severity of delinquencies.

For mortgage portfolios, expected losses are estimated through analysis of historical loss migration and write-off trends.

The level of the general allowance is re-assessed quarterly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends in probability of loss, severity of loss and exposure at default factors; and management's current assessment of factors that may have affected the condition of the portfolio.

While the total general allowance is established through a step-by-step process that considers risk arising from specific segments of the portfolio, the resulting total general allowance is available to absorb all incurred losses in the loan portfolio for which there has been no specific allowance.

The general allowance for credit losses is recorded as a reduction of loans in the Consolidated Balance Sheet.

*Sectoral allowances*
A sectoral allowance is established when an industry sector or geographic region experiences specific adverse events or changes in economic conditions and it is considered necessary to establish an additional allowance for loan losses for the group of loans as a whole, even though the individual loans comprising the group are still classified as performing. These allowances are considered sectoral and are established for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowance.

The sectoral allowance for credit losses is recorded as a reduction of loans in the Consolidated Balance Sheet.

### Sales of loans
Transfers of loans to unrelated parties are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. If these criteria are not satisfied, then the transfers are treated as financing transactions. If treated as sales, the loans are removed from the Consolidated Balance Sheet and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. The fair values of loans sold, retained interests and recourse liabilities are determined using either quoted market prices, pricing models which take into account management's best estimates of key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved, or sales of similar assets. Where the Bank continues to service the loans sold, a servicing liability or asset is recognized and amortized over the servicing period as servicing fees.

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the Bank would not recover substantially all of its recorded investment are classified in available-for-sale securities in the Consolidated Balance Sheet. Such retained interests are tested regularly for other-than-temporary impairment and, if required, the retained interest's carrying value is reduced to fair value by a charge to other income – net gain (loss) on securities, other than trading in the Consolidated Statement of Income. Other retained interests are classified and accounted for as loans.

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

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

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

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

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

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

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

Other intangible assets are mainly comprised of fund management contracts, computer software costs and core deposit intangibles.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are subject to impairment tests on at least an annual basis. Goodwill is allocated to seven reporting units and any potential goodwill impairment is identified by comparing the carrying value of a reporting unit with its fair value. If any potential impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities. The fair value of the reporting units is determined using an internally developed valuation model using a market approach. The market approach considers

various factors including normalized earnings, projected forward earnings and price earnings multiples.

Intangible assets, other than goodwill and fund management contracts, which do not have indefinite useful lives are amortized on a straight-line basis over their useful lives not exceeding 20 years. These intangible assets are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable. The amortization of intangible assets is recorded in other non-interest expenses in the Consolidated Statement of Income.

### Capital instrument liabilities

Capital instruments that must or can be settled by issuing a variable number of the issuer's own equity instruments are required to be presented as liabilities rather than as equity. These instruments are classified as either deposit liabilities or capital instrument liabilities in the Consolidated Balance Sheet, with the disbursements recorded in interest expense.

### Corporate income taxes

The Bank follows the asset and liability method of accounting for corporate income taxes. Under this method, future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities, and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period in which the tax change was enacted or substantively enacted.

Future tax assets and liabilities are included in other assets and other liabilities in the Consolidated Balance Sheet.

### Derivative instruments

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. Most derivative instruments can be characterized as interest rate contracts, foreign exchange and gold contracts, equity contracts or credit contracts. Derivative instruments are either exchange-traded contracts or negotiated over-the-counter contracts. Negotiated over-the-counter contracts include swaps, forwards and options.

The Bank enters into these derivative contracts for trading purposes, as well as to manage its exposures. Trading derivatives are entered into with customers to accommodate their risk management needs and are used to reduce or adjust the Bank's risk profile arising from its market making activities that support its client-based transactions. Derivative instruments designated as "asset/liability management" are those used to manage the Bank's non-trading interest rate, foreign currency and other exposures. These include instruments that meet specified criteria to be designated as hedges for accounting purposes.

All derivatives, including embedded derivatives for which separate accounting is required, are recorded at fair value in the Consolidated Balance Sheet. The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments. Inception gains or losses on derivatives are only recognized where the valuation is dependent on observable market data, otherwise, they are deferred over the life of the related contract, or until the valuation inputs become observable. The gains and losses resulting from changes in fair values of trading derivatives are included in other income – trading revenues in the Consolidated Statement of Income.

Changes in the fair value of asset/liability management derivatives that do not qualify for hedge accounting are carried at fair value in the Consolidated Balance Sheet, and subsequent changes in their fair values are recorded in the Consolidated Statement of Income as follows: interest-related contracts in net interest income; options used in managing non-trading securities in net gain (loss) on securities, other than trading; and other derivative contracts in other income – other. Where derivative instruments are used to manage the volatility of stock-based compensation, these derivatives are carried at fair value with changes in the fair value included in salaries and employee expense in the Consolidated Statement of Income.

### Hedge accounting

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking these derivatives to specific assets and liabilities on the Consolidated Balance Sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses both at a hedge's inception and on an ongoing basis whether the derivatives used in hedging transactions are highly effective in offsetting changes in the fair value or cash flows of hedged items.

Hedge ineffectiveness is measured and recognized in the Consolidated Statement of Income. When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the original hedge, or when the hedged item is derecognized. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value without any offset from the hedged item.

There are three types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges.

*Fair value hedges*

For fair value hedges, the change in fair value of the hedging derivative is offset in the Consolidated Statement of Income by the change in fair value of the hedged item relating to the hedged risk. The Bank utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate exposures. The main financial instruments designated as fair value hedged items include debt securities, loans, deposit liabilities and subordinated debentures.

*Cash flow hedges*

For cash flow hedges, the change in fair value of the hedging derivative is recorded in other comprehensive income, to the extent it is effective, until the hedged item affects the Consolidated Statement of Income. The Bank utilizes cash flow hedges primarily to convert floating rate deposit liabilities to fixed rate exposures.

*Net investment hedges*

For net investment hedges, the change in fair value of the hedging instrument, to the extent effective, is recorded in other comprehensive income. The Bank designates foreign currency liabilities and derivatives as hedging instruments. These amounts are recognized in income when the corresponding cumulative translation adjustments from self-sustaining foreign operations are recognized in income.

### Employee future benefits

The Bank provides pension and other future benefit plans for qualified employees in Canada, the United States and other international operations. Pension benefits are generally based on an employee's length of service and the final five years' average salary. Other future benefits provided include post-retirement health care, dental care and life insurance, along with post-employment benefits and compensated absences.

The cost of these employee future benefits is actuarially determined each year using the projected benefit method prorated on service. The

calculation uses management's best estimate of a number of assumptions – including the long-term rates of investment return on plan assets, future compensation, health care costs, mortality, as well as the retirement age of employees. The discount rate is based on market conditions as at the calculation date. The expected return on plan assets is generally based on a market-related value of plan assets, where gains or losses on equity investments are recognized over three years; fixed income investments are recognized at market value. The Bank's main pension plan uses a measurement date of August 31, while the other principal employee future benefit plans use a July 31 date.

Past service costs, from plan amendments that impact previously earned employee benefits, are amortized on a straight-line basis over the estimated average remaining period to full benefit eligibility for active employees. For the Bank's principal pension plans, these periods range from 9 to 18 years. For principal other benefit plans, these periods range from 8 to 27 years. If the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of the year, the excess above this 10% threshold is generally amortized over the estimated average remaining service period of employees. For the Bank's principal pension plans and principal other benefit plans, these periods range from 9 to 18 years and from 8 to 27 years, respectively. A pension valuation allowance is recognized if the prepaid benefit expense (the cumulative difference between pension income/expense and funding contributions) is more than the Bank's expected future benefit.

The cumulative difference between pension income/expense and funding contributions is included in other assets and other liabilities, as appropriate, in the Consolidated Balance Sheet. The difference between other future benefits expense and payments to qualified plan members is included in other assets and other liabilities in the Consolidated Balance Sheet.

Certain employees outside of Canada participate in defined contribution pension plans. The costs for such plans are equal to Bank contributions made to employees' accounts during the year.

### Stock-based compensation

The Bank has stock option plans and other stock-based compensation plans for certain eligible employees and non-officer directors that are described more fully in Note 18.

Employee stock options with Tandem Stock Appreciation Rights (Tandem SARs), provide the employee the choice to either exercise the stock option for shares, or to exercise the Tandem SAR and thereby receive the intrinsic value of the stock option in cash. Options with Tandem SARs are awards that may call for settlement in cash and, therefore, are recorded in other liabilities in the Consolidated Balance Sheet. Changes in this liability, which primarily arise from fluctuations in the market price of the Bank's common shares, are recorded in salaries and employee benefits expense in the Consolidated Statement of Income on a graded vesting basis. If an employee chooses to exercise the option, thereby cancelling the Tandem SAR, both the exercise price and the accrued liability are credited to common shares in the Consolidated Balance Sheet.

Stock options that do not contain the tandem share appreciation features require settlement in shares only. These stock options are expensed on a graded vesting basis using the grant date fair-value (Black-Scholes pricing model) and are recorded in salaries and employee benefits expense in the Consolidated Statement of Income with a corresponding credit to contributed surplus in the Consolidated Balance Sheet. If the employee exercises the option, both the exercise price proceeds together with the amount recorded in contributed surplus are credited to common shares in the Consolidated Balance Sheet.

For stock options granted prior to November 1, 2002, the Bank accounts for these options using the intrinsic method. Under this method, the Bank does not recognize any compensation expense, since the exercise price was set at an amount equal to the closing price on the day prior to the grant of the stock options. When these stock options are exercised, the proceeds received by the Bank are credited to common shares in the Consolidated Balance Sheet.

The Bank's other liability-classified stock-based compensation plans are accounted for in a similar manner as stock options with Tandem SAR features, except that other stock-based compensation expense is recognized evenly over an applicable vesting period.

For SARs, including Tandem SARs and other stock-based compensation, the Bank recognizes i) the compensation costs attributable to stock-based compensation awards granted to employees who are eligible to retire on the grant date immediately on the grant date; and ii) compensation costs attributable to stock-based compensation awards granted to employees who will become eligible to retire during the vesting period over the timeframe between the grant date and the date of retirement eligibility.

Stock options granted to non-officer directors do not have Tandem SAR features.

### Earnings per share (EPS)

Basic EPS is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted-average number of diluted common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted EPS is determined using the treasury stock method. The treasury stock method determines the number of incremental common shares by assuming that the outstanding stock options, whose exercise price is less than the average market price of the Bank's common stock during the period, are exercised and the proceeds used to purchase common shares at the average market price. The incremental number of common shares is included in the calculation of diluted shares.

### Guarantees

A liability is recorded for the fair value of the obligation assumed at the inception of certain guarantees. The guarantees affected include standby letters of credit, letters of guarantee, credit enhancements and other similar contracts. The fair value of the obligation at inception is generally based on the discounted cash flow of the premium to be received for the guarantee, resulting in a corresponding asset.

## 2 Future accounting changes

The following summarizes future accounting changes that will be relevant to the Bank's consolidated financial statements subsequent to October 31, 2011.

### International Financial Reporting Standards (IFRS)

International Financial Reporting Standards will replace current Canadian GAAP for the Bank, effective for interim and annual periods commencing November 1, 2011 (adoption date), including the

preparation and reporting of one year of comparative figures and an opening balance sheet as at November 1, 2010 (transition date). Accordingly, these financial statements will be the last prepared by the Bank under pre-conversion Canadian GAAP, and the conversion to IFRS will be applicable to the Bank's reporting for the first quarter of 2012, for which current and comparative information will be prepared under IFRS.

The Bank has determined a number of key differences between current Canadian GAAP and IFRS that have the potential to significantly affect the financial statements, operations or capital of the Bank. IFRS also allows for certain one time elections on the transition date. The areas of significant differences that impact the Bank include consolidation, business combinations, shared-based payments, employee benefits, cumulative translation differences and derecognition.

### Key financial impacts

#### *Key differences between current accounting policies and IFRS requirements*

Net adjustments to the Bank's opening balance sheet resulting from differences between Canadian GAAP and IFRS will be recorded against retained earnings on transition, or other components of equity.

The Bank is in the process of finalizing its comparative periods. Estimates for certain significant opening balance sheet impacts based on accounting policies selected and elections made are discussed below. The total estimated negative impact of the cumulative adjustments on total shareholders' equity is approximately $1 billion and the resultant net negative impact on the Bank's Tier 1 capital ratio is approximately 77 basis points.

### Consolidation

Canadian GAAP determines consolidation of an entity using two frameworks: the variable interest entity (VIE) and voting control models. The consolidation of a VIE under Canadian GAAP is based on whether the Bank is exposed to the majority of the VIE's expected losses or residual returns, or both and considered to be the primary beneficiary.

Under IFRS, an entity (including a special purpose entity (SPE)) is consolidated based solely on control, which is evidenced by the power to govern the financial and operating policies of an entity to obtain benefit. When assessing control under IFRS, all relevant factors are considered, including qualitative and quantitative aspects.

As a result of the differences in criteria, certain SPEs are required to be consolidated under IFRS that were not consolidated under Canadian GAAP, including one Bank-sponsored multi-seller conduit and the Bank's capital instrument trusts. In addition, certain capital instruments issued by the Bank's capital instrument trusts which are now consolidated have been assessed under IFRS as being equity instruments or compound instruments comprising both liability and equity components. The equity classification, in whole or for part of the instrument, is due to certain payment features in these instruments that do not create an unavoidable obligation to pay cash. The trusts' instruments with these equity-based features will be classified, in whole or in part as applicable, as capital instruments equity.

The estimated overall impact is an increase in the Bank's assets of $2.7 billion, an increase in liabilities of $2.0 billion, an increase in capital instruments equity of $1.0 billion, and a decrease in opening retained earnings of $0.3 billion.

### Business combinations

Under IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS 1), an entity may elect to not retrospectively restate any business combinations that occurred prior to the transition date.

Although the Bank has elected to not restate any business combinations that occurred prior to November 1, 2010, certain adjustments are still required upon transition to IFRS such as fair valuing contingent consideration. The impact from these adjustments is a decrease in assets of $2 million, an increase in liabilities of $42 million and a decrease to equity of $44 million.

### Share-based payments

IFRS requires cash-settled (i.e., liability-classified) awards to be remeasured at each reporting date based on changes in the fair value of the liability. Under Canadian GAAP, liability-classified awards are remeasured at each reporting date based on changes in the intrinsic value of such awards.

IFRS 1 allows the choice of not having to remeasure liability-classified awards to their fair value for those awards that have already settled by the transition date. The impact on transition for the awards that have not settled by the date of transition is a decrease to opening retained earnings of $21 million, an increase in other liabilities of $20 million and a decrease in deferred tax assets of $1 million.

### Employee benefits

Under IFRS 1, an entity may elect to recognize all cumulative unamortized actuarial gains and losses for employee defined benefit plans at transition date instead of retrospective restatement, with an offsetting adjustment against opening retained earnings.

The Bank has elected this exemption. The estimated impact of this election would be a reduction to opening retained earnings of $1.4 billion. The impact under IFRS differs from Canadian GAAP amounts due to adjustments for items such as using an October 31 measurement date for the actuarial valuation, and using fair values for determining the expected return on plan assets.

### Cumulative translation differences

IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, instead of recalculating from inception. This would result in the reclassification of amounts in accumulated other comprehensive income (AOCI) to opening retained earnings on transition.

The Bank has elected to use this exemption. The reclassification of the cumulative translation loss from AOCI to opening retained earnings is $4.5 billion, which was the Canadian GAAP amount as at October 31, 2010.

### Derecognition

Canadian GAAP uses a control-based model to assess derecognition, while IFRS primarily focuses on whether risks and rewards have been substantially transferred. As a result of the differences in criteria, transfers of certain financial assets that previously qualified for derecognition under Canadian GAAP will no longer qualify under IFRS.

The Bank's insured residential mortgage securitizations through the Canadian Government's Canada Mortgage Bond (CMB) Programs receive off-balance sheet treatment under Canadian GAAP. These mortgage securitization transactions do not meet the derecognition criteria under IFRS. Additionally, mortgages securitized and retained as mortgage-backed securities (MBS), currently classified as available-for-sale on the Bank's Consolidated Balance Sheet under Canadian GAAP, would be classified as residential mortgages under IFRS.

In December 2010, the International Accounting Standards Board (IASB) issued amendments to IFRS 1 to allow first-time adopters the option of applying the IFRS derecognition requirements prospectively to transactions occurring on or after an entity's transition date; or retrospectively from a date of the entity's choosing. In February 2011,

OSFI issued an advisory requiring all federally regulated entities to apply the derecognition requirements retrospectively from January 1, 2004.

Application of the derecognition criteria from January 1, 2004, is estimated to result in an increase in residential mortgages and other assets of $31 billion, an increase in deposits and other liabilities of $15 billion and a decrease in available-for-sale securities of $16 billion. The net impact to opening retained earnings would be an increase of $140 million. In addition, there would be a decrease in AOCI of $336 million related to the available-for-sale securities.

## 3 Securities

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

| | Remaining term to maturity | | | | | 2011 | 2010 |
|---|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Within 3 months | Three to 12 months | One to 5 years | Over 5 years | No specific maturity | Carrying value | Carrying value |
| Trading securities: | | | | | | | |
| Canadian federal government debt | $ 984 | $ 1,711 | $ 5,252 | $ 5,573 | $ – | **$ 13,520** | $ 18,127 |
| Canadian provincial and municipal debt | 564 | 554 | 651 | 2,459 | – | **4,228** | 4,487 |
| U.S. treasury and other U.S. agencies' debt | 1 | 468 | 1,873 | 1,150 | – | **3,492** | 5,065 |
| Other foreign governments' debt | 1,173 | 1,007 | 1,765 | 1,178 | – | **5,123** | 4,755 |
| Common shares | – | – | – | – | 26,757 | **26,757** | 22,264 |
| Other | 1,638 | 2,517 | 4,545 | 1,507 | – | **10,207** | 9,986 |
| Total | 4,360 | 6,257 | 14,086 | 11,867 | 26,757 | **63,327**[(1)] | 64,684[(1)] |
| Available-for-sale securities: | | | | | | | |
| Canadian federal government debt | 410 | 898 | 7,272 | 615 | – | **9,195** | 9,092 |
| Mortgage-backed securities[(2)] | 67 | 560 | 21,315 | 140 | – | **22,082** | 18,581 |
| Canadian provincial and municipal debt | 100 | 10 | 2,159 | 50 | – | **2,319** | 1,131 |
| U.S. treasury and other U.S. agencies' debt | 188 | 451 | 36 | 8 | – | **683** | 1,240 |
| Other foreign governments' debt | 1,844 | 1,504 | 2,713 | 1,529 | – | **7,590** | 5,705 |
| Bonds of designated emerging markets | – | – | 57 | 214 | – | **271** | 312 |
| Other debt | 862 | 1,521 | 3,565 | 790 | – | **6,738** | 8,206 |
| Preferred shares | – | – | – | – | 427 | **427** | 475 |
| Common shares[(3)] | – | – | – | – | 2,750 | **2,750** | 2,486 |
| Total | 3,471 | 4,944 | 37,117 | 3,346 | 3,177 | **52,055** | 47,228 |
| Equity accounted investments: | – | – | – | – | 4,491[(4)] | **4,491** | 4,651 |
| Total securities | $7,831 | $11,201 | $51,203 | $15,213 | $34,425 | **$119,873** | $ 116,563 |
| Total by currency (in Canadian equivalent): | | | | | | | |
| Canadian dollar | $3,122 | $ 5,382 | $39,001 | $10,467 | $26,586 | **$ 84,558** | $ 84,035 |
| U.S. dollar | 736 | 2,593 | 6,725 | 2,112 | 3,513 | **15,679** | 16,954 |
| Mexican peso | 1,318 | 493 | 819 | 460 | 135 | **3,225** | 2,862 |
| Other currencies | 2,655 | 2,733 | 4,658 | 2,174 | 4,191 | **16,411** | 12,712 |
| Total securities | $7,831 | $11,201 | $51,203 | $15,213 | $34,425 | **$119,873** | $ 116,563 |

(1) Includes $414 (2010 – $444) in mortgage-backed securities.
(2) Includes NHA mortgage-backed securities created and retained by the Bank. The outstanding balance of these mortgage-backed securities is $21,446 (2010 – $17,809). Canada Mortgage and Housing Corporation provides a guarantee of timely payment to NHA mortgage-backed security investors.
(3) The carrying value of available-for-sale equity securities that are not quoted in an active market is $794 (2010 – $918).
(4) Equity accounted investments have no stated term, and as a result, have been classified in the "No specific maturity" column.

In accordance with certain CICA amendments to the accounting standard on Financial Instruments – Recognition and Measurement, the Bank reclassified certain trading securities to available-for-sale securities effective August 1, 2008. These assets were comprised of $303 million of bond assets and $91 million of preferred shares that were no longer traded in an active market and which management intends to hold for the foreseeable future. As of the reclassification date, the weighted average effective interest rate on the reclassified bond asset portfolio was 4.0%, with expected recoverable cash flows of $366 million.

As at October 31, 2011, the fair values of the remaining bond assets and preferred shares were $24 million (2010 – $128 million) and $38 million (2010 – $52 million) respectively. Due to the reclassification of the bond assets and preferred shares, for the year ended October 31, 2011, the Bank recorded after-tax losses in other comprehensive income of $13 million (2010 – gains of $9 million; 2009 – gains of $26 million) and $1 million (2010 – gains of $3 million; 2009 – gains of $6 million), respectively, relating to fair value movements. If the reclassifications of these bond assets and preferred shares had not been made, pre-tax losses of $18 million (2010 – gains of $12 million; 2009 – gains of $33 million) and $2 million (2010 – gains of $4 million; 2009 – gains of $9 million), respectively, would have been recorded in the Consolidated Statement of Income.

## (b) An analysis of unrealized gains and losses on available-for-sale securities is as follows:

| As at October 31 ($ millions) | 2011 Cost[1] | 2011 Gross unrealized gains | 2011 Gross unrealized losses | 2011 Fair value | 2010 Cost[1] | 2010 Gross unrealized gains | 2010 Gross unrealized losses | 2010 Fair value |
|---|---|---|---|---|---|---|---|---|
| Canadian federal government debt | **$ 8,991** | **$ 209** | **$ 5** | **$ 9,195** | $ 8,927 | $ 166 | $ 1 | $ 9,092 |
| Mortgage-backed securities[2] | **21,595** | **538** | **51** | **22,082** | 18,100 | 494 | 13 | 18,581 |
| Canadian provincial and municipal debt | **2,285** | **38** | **4** | **2,319** | 1,102 | 29 | – | 1,131 |
| U.S. treasury and other U.S. agencies' debt | **685** | **–** | **2** | **683** | 1,226 | 18 | 4 | 1,240 |
| Other foreign governments' debt | **7,357** | **264** | **31** | **7,590** | 5,458 | 287 | 40 | 5,705 |
| Bonds of designated emerging markets | **163** | **108** | **–** | **271** | 180 | 132 | – | 312 |
| Other debt | **6,780** | **141** | **183** | **6,738** | 8,132 | 217 | 143 | 8,206 |
| Preferred shares | **453** | **18** | **44** | **427** | 488 | 24 | 37 | 475 |
| Common shares | **2,491** | **365** | **106** | **2,750** | 2,198 | 320 | 32 | 2,486 |
| Total available-for-sale securities | **$ 50,800** | **$ 1,681** | **$ 426** | **$ 52,055** | $ 45,811 | $ 1,687 | $ 270 | $ 47,228 |

(1) Cost for debt securities is amortized cost.
(2) Includes NHA mortgage-backed securities created and retained by the Bank.

The net unrealized gain on available-for-sale securities of $1,255 million (2010 – $1,417 million) decreases to a net unrealized gain of $1,028 million (2010 – decreases to $1,189 million) after the net fair value of derivative instruments and other hedge amounts associated with these securities are taken into account. The net unrealized gain on available-for-sale securities is recorded in accumulated other comprehensive income.

## (c) An analysis of available-for-sale securities with continuous unrealized losses:

**2011**

| As at October 31 ($ millions) | Less than 12 months Cost | Less than 12 months Fair value | Less than 12 months Unrealized losses | 12 months or greater Cost | 12 months or greater Fair value | 12 months or greater Unrealized losses | Total Cost | Total Fair value | Total Unrealized losses |
|---|---|---|---|---|---|---|---|---|---|
| Canadian federal government debt | **$ 1,927** | **$ 1,922** | **$ 5** | **$ –** | **$ –** | **$ –** | **$ 1,927** | **$ 1,922** | **$ 5** |
| Mortgage-backed securities | **3,300** | **3,249** | **51** | **374** | **374** | **–** | **3,674** | **3,623** | **51** |
| Canadian provincial and municipal debt | **629** | **625** | **4** | **10** | **10** | **–** | **639** | **635** | **4** |
| U.S. treasury and other U.S. agencies' debt | **35** | **33** | **2** | **42** | **42** | **–** | **77** | **75** | **2** |
| Other foreign governments' debt | **2,597** | **2,569** | **28** | **204** | **201** | **3** | **2,801** | **2,770** | **31** |
| Other debt | **2,078** | **2,016** | **62** | **1,100** | **979** | **121** | **3,178** | **2,995** | **183** |
| Preferred shares | **9** | **8** | **1** | **336** | **293** | **43** | **345** | **301** | **44** |
| Common shares | **682** | **583** | **99** | **29** | **22** | **7** | **711** | **605** | **106** |
| Total | **$ 11,257** | **$ 11,005** | **$ 252** | **$ 2,095** | **$ 1,921** | **$ 174** | **$ 13,352** | **$ 12,926** | **$ 426** |

2010

| As at October 31 ($ millions) | Less than 12 months Cost | Less than 12 months Fair value | Less than 12 months Unrealized losses | 12 months or greater Cost | 12 months or greater Fair value | 12 months or greater Unrealized losses | Total Cost | Total Fair value | Total Unrealized losses |
|---|---|---|---|---|---|---|---|---|---|
| Canadian federal government debt | $ 893 | $ 892 | $ 1 | $ – | $ – | $ – | $ 893 | $ 892 | $ 1 |
| Mortgage-backed securities | 97 | 96 | 1 | 461 | 449 | 12 | 558 | 545 | 13 |
| Canadian provincial and municipal debt | 10 | 10 | – | – | – | – | 10 | 10 | – |
| U.S. treasury and other U.S. agencies' debt | 102 | 99 | 3 | 10 | 9 | 1 | 112 | 108 | 4 |
| Other foreign governments' debt | 1,800 | 1,775 | 25 | 73 | 58 | 15 | 1,873 | 1,833 | 40 |
| Other debt | 1,269 | 1,255 | 14 | 2,286 | 2,157 | 129 | 3,555 | 3,412 | 143 |
| Preferred shares | 2 | 2 | – | 346 | 309 | 37 | 348 | 311 | 37 |
| Common shares | 242 | 227 | 15 | 99 | 82 | 17 | 341 | 309 | 32 |
| Total | $ 4,415 | $ 4,356 | $ 59 | $ 3,275 | $ 3,064 | $ 211 | $ 7,690 | $ 7,420 | $ 270 |

As at October 31, 2011, the cost of 700 (2010 – 549) available-for-sale securities exceeded their fair value by $426 million (2010 – $270 million). This unrealized loss is recorded in accumulated other comprehensive income as part of unrealized gains (losses) on available-for-sale securities. Of the 700 (2010 – 549) securities, 175 (2010 – 225) have been in an unrealized loss position continuously for more than a year, amounting to an unrealized loss of $174 million (2010 – $211 million). The increase in the unrealized loss on debt instruments is mainly due to the widening of credit spreads in the last quarter of fiscal 2011. For equity investments, declines in capital markets in the last quarter increased the unrealized loss.

Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature.

The Bank conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a writedown is recorded when the decline is considered other-than-temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

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

| For the year ended October 31 ($ millions) | **2011** | 2010 | 2009 |
|---|---|---|---|
| Realized gains | **$ 409** | $ 790 | $ 593 |
| Realized losses | **67** | 304 | 316 |
| Impairment writedowns[2] | **103** | 131 | 689 |
| Net gain (loss) on securities, other than trading | **$ 239** | $ 355 | $(412) |

(1) The net gain (loss) on securities, other than trading mainly relates to available-for-sale securities and equity accounted investments.
(2) Impairment writedowns are comprised of $47 for equity securities (2010 – $107; 2009 – $546) and $56 for debt securities (2010 – $24; 2009 – $143).

Net gains realized on available-for-sale equity securities which did not have a quoted market price were $165 million for the year ended October 31, 2011 (2010 – $60 million; 2009 – $28 million).

## 4 Loans

### (a) Loans outstanding by geography

The Bank's loans, net of unearned income and the allowance for credit losses in respect of loans, are as follows[1]:

| As at October 31 ($ millions) | **2011** | 2010 |
|---|---|---|
| Canada: | | |
| Residential mortgages | **$ 106,858** | $ 104,546 |
| Personal and credit cards | **50,747** | 49,657 |
| Business and government | **36,613** | 35,520 |
| | **194,218** | 189,723 |
| United States: | | |
| Personal | **2,254** | 3,864 |
| Business and government | **18,911** | 17,149 |
| | **21,165** | 21,013 |
| Mexico: | | |
| Residential mortgages | **3,412** | 3,686 |
| Personal and credit cards | **1,744** | 1,987 |
| Business and government | **5,602** | 4,725 |
| | **10,758** | 10,398 |
| Other International: | | |
| Residential mortgages | **12,812** | 12,250 |
| Personal and credit cards | **8,019** | 7,040 |
| Business and government | **54,547** | 46,587 |
| | **75,378** | 65,877 |
| | **301,519** | 287,011 |
| Less: allowance for credit losses | **2,817** | 2,787 |
| Total[2][3][4] | **$ 298,702** | $ 284,224 |

(1) Geographic segmentation of assets is based upon the location of the ultimate risk of the underlying assets.
(2) Loans denominated in U.S. dollars amount to $63,471 (2010 – $57,508), loans denominated in Mexican pesos amount to $8,299 (2010 – $8,554) and loans denominated in other foreign currencies amount to $38,666 (2010 – $33,822).
(3) In addition to loans designated as trading (see Note 27), the fair value of the Bank's loans transacted after October 31, 2009 and classified as trading was $2,407. These trading loans were included in Business and Government.
(4) As at October 31, 2011, loans include securities, not traded in an active market, of $4,114 (2010 – $6,483), of which $2,934 was included in Personal (2010 – $5,189). These debt instruments included consumer auto-based securities, other auto-based securities, cash-based collateralized loan and debt obligations, and a specific portfolio of government and corporate bonds held by one of the Bank's international units.

## (b) Loans and acceptances by type of borrower

| | 2011 | | 2010 | |
|---|---|---|---|---|
| As at October 31 ($ millions) | Balance | % of total | Balance | % of total |
| **Personal** | | | | |
| Residential mortgages | **$ 122,814** | **39.9%** | $ 120,260 | 41.0% |
| Credit cards | **10,847** | **3.5** | 10,781 | 3.7 |
| Personal loans | **51,234** | **16.6** | 51,101 | 17.4 |
| | **$ 184,895** | **60.0%** | $ 182,142 | 62.1% |
| **Businesses and government** | | | | |
| Financial services | **22,136** | **7.2** | 19,269 | 6.6 |
| Wholesale and retail | **11,478** | **3.7** | 10,360 | 3.5 |
| Real estate | **10,926** | **3.5** | 10,679 | 3.6 |
| Oil and gas | **10,167** | **3.3** | 9,334 | 3.2 |
| Transportation | **7,918** | **2.6** | 7,008 | 2.4 |
| Automotive | **5,744** | **1.8** | 5,163 | 1.8 |
| Agriculture | **5,493** | **1.8** | 4,519 | 1.5 |
| Government | **4,461** | **1.4** | 4,170 | 1.4 |
| Hotels and leisure | **3,910** | **1.3** | 4,085 | 1.4 |
| Mining and primary metals | **6,682** | **2.2** | 5,252 | 1.8 |
| Utilities | **5,317** | **1.7** | 5,041 | 1.7 |
| Health care | **4,421** | **1.4** | 3,970 | 1.3 |
| Telecommunications and cable | **4,380** | **1.4** | 3,728 | 1.3 |
| Media | **1,785** | **0.6** | 1,899 | 0.7 |
| Chemical | **1,731** | **0.6** | 1,239 | 0.4 |
| Food and beverage | **2,977** | **1.0** | 2,834 | 1.0 |
| Forest products | **1,131** | **0.4** | 1,109 | 0.4 |
| Other | **12,674** | **4.1** | 11,449 | 3.9 |
| | **$ 123,331** | **40.0%** | $ 111,108 | 37.9% |
| | **308,226** | **100.0%** | 293,250 | 100.0% |
| General allowance | **(1,352)** | | (1,410) | |
| Total loans and acceptances | **$ 306,874** | | $ 291,840 | |

## (c) Sales of loans through securitizations

The Bank securitizes residential mortgages through the creation of mortgage-backed securities. The gain on sale of the mortgages resulting from these securitizations, before issuance costs, is recognized in other income in the Consolidated Statement of Income. The key weighted-average assumptions used to measure fair value at the dates of securitization were a prepayment rate of 23.9% (2010 – 22.9%; 2009 – 22.5%), an excess spread of 1.2% (2010 – 1.2%; 2009 – 1.8%), and a discount rate of 1.9% (2010 – 1.7%; 2009 – 2.4%). No credit losses are expected as the mortgages are insured. The following table summarizes the Bank's sales.

| For the year ended October 31 ($ millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net cash proceeds[(1)] | **$ 8,253** | $ 3,762 | $ 11,879 |
| Retained interest | **216** | 103 | 480 |
| Retained servicing liability | **(45)** | (22) | (69) |
| | **8,424** | 3,843 | 12,290 |
| Residential mortgages securitized[(2)] | **8,256** | 3,770 | 11,953 |
| Net gain on sale[(3)] | **$ 168** | $ 73 | $ 337 |

(1) Excludes insured mortgages which were securitized and retained by the Bank during the year of $11,951 (2010 – $4,309; 2009 – $20,923). These assets are classified as available-for-sale securities and have an outstanding balance of $21,446 (2010 – $17,809; 2009 – $20,864) [refer to Note 3a].
(2) Includes sales of mortgage-backed securities in the current period that related to residential mortgages securitized by the Bank in prior periods but retained by the Bank at that time of $1,834 (2010 – $960; 2009 – $2,126).
(3) Net of issuance costs.

The key assumptions used in measuring the fair value of the retained interests for mortgages securitized and the sensitivity of the current fair value of retained interests to a 10% and 20% adverse change to these assumptions are as follows:

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| Fair value of the retained interest ($) | **428** | 404 |
| Weighted average life (in years) | **3** | 3 |
| Prepayment rate (%) | **23.2** | 22.3 |
| Impact on fair value of a 10% adverse change ($) | **(12)** | (11) |
| Impact on fair value of a 20% adverse change ($) | **(23)** | (22) |
| Residual cash flow annual discount rate (%) | **1.05-1.82** | 1.19-2.42 |
| Impact on fair value of a 10% adverse change ($) | **(1)** | (1) |
| Impact on fair value of a 20% adverse change ($) | **(1)** | (2) |
| Excess spread (%) | **1.4** | 1.8 |
| Impact on fair value of a 10% adverse change ($) | **(42)** | (41) |
| Impact on fair value of a 20% adverse change ($) | **(84)** | (82) |

The sensitivity measures above are hypothetical and should be used with caution. Other sensitivity estimates should not be extrapolated from those presented above since the relationship between the change in the assumption to the change in fair value is not linear. In addition, changes in a particular assumption and the effect on the fair value of the retained interest is calculated without changing any other assumption; however, the factors are not independent and the actual effects could be magnified or counteracted from the sensitivities presented. Information on total securitized loan assets[1] is summarized as follows:

| | 2011 | | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Outstanding securitized loans as at October 31 | Impaired and other past due loans as at October 31 | Net credit losses for the year ended October 31 | Outstanding securitized loans as at October 31 | Impaired and other past due loans as at October 31 | Net credit losses for the year ended October 31 | Outstanding securitized loans as at October 31 | Impaired and other past due loans as at October 31 | Net credit losses for the year ended October 31 |
| Residential mortgages[1][2] | **$ 19,143** | **$ 27** | **$ –** | $ 16,033 | $ 19 | $ – | $ 17,494 | $ 35 | $ – |
| Personal loans[3] | **2** | **–** | **1** | 10 | 1 | 4 | 199 | 3 | 3 |
| Total | **$ 19,145** | **$ 27** | **$ 1** | $ 16,043 | $ 20 | $ 4 | $ 17,693 | $ 38 | $ 3 |

(1) Excludes insured mortgages which were securitized and retained by the Bank (refer to Note 3a).
(2) Excludes past due payments relating to residential mortgages insured by Canada Mortgage and Housing Corporation of $17 (2010 – $15; 2009 – $19).
(3) 2009 included a revolving securitization facility that matured in 2010.

## (d) Loans past due but not impaired[1]

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than 90 days past due, or fully secured and collection efforts are reasonably expected to result in repayment, or restoring it to a current status in accordance with the Bank's policy.

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | 31 - 60 days | 61 - 90 days | 91 days and greater | Total | 31 - 60 days | 61 - 90 days | 91 days and greater | Total |
| Residential mortgages | **$ 1,363** | **$ 488** | **$ 191** | **$ 2,042** | $ 1,403 | $ 466 | $ 202 | $ 2,071 |
| Personal and credit cards | **377** | **187** | **55** | **619** | 398 | 207 | 58 | 663 |
| Business and government | **226** | **242** | **162** | **630** | 513 | 208 | 189 | 910 |
| Total | **$ 1,966** | **$ 917** | **$ 408** | **$ 3,291** | $ 2,314 | $ 881 | $ 449 | $ 3,644 |

(1) Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

## 5 Impaired loans and allowance for credit losses

### (a) Impaired loans

| As at October 31 ($ millions) | Gross[1] | Specific allowance[2] | 2011 Net | 2010 Net |
|---|---|---|---|---|
| **By loan type:** | | | | |
| Residential mortgages | $ 1,568 | $ (268) | **$ 1,300** | $ 1,472 |
| Personal and credit cards | 853 | (683) | **170** | 90 |
| Business and government | 1,667 | (514) | **1,153** | 1,482 |
| Total | $ 4,088[3][4] | $(1,465) | **2,623** | $ 3,044 |
| **By geography:** | | | | |
| Canada | | | **512** | 642 |
| United States | | | **115** | 154 |
| Other International | | | **1,996** | 2,248 |
| Total | | | **$ 2,623** | $ 3,044 |

(1) Gross impaired loans denominated in U.S. dollars amounted to $964 (2010 – $1,122) and those denominated in other foreign currencies amounted to $395 (2010 – $458).
(2) The specific allowance for impaired loans evaluated on an individual basis totalled $506 (2010 – $485).
(3) Individual impaired loans without an allowance for credit losses totalled $447 (2010 – $1,039).
(4) Average balance of gross impaired loans totalled $4,261 (2010 – $4,642).

Loans purchased as part of the acquisition of R-G Premier Bank of Puerto Rico are subject to loss share agreements with the Federal Deposit Insurance Corporation (FDIC). The provision for credit losses related to these loans are reflected net of the amount expected to be reimbursed by the FDIC in the Consolidated Statement of Income. Allowance for credit losses are reflected on a gross basis on the Consolidated Balance Sheet. As at October 31, 2011, the fair value of loans guaranteed by FDIC were $3.3 billion (October 31, 2010 – $3.6 billion) with a net receivable of $775 million (October 31, 2010 – $852 million) from FDIC.

Included in impaired loans are $308 million (October 31, 2010 – $553 million) of purchased impaired loans from the 2010 R-G Premier Bank acquisition. The loans purchased are recorded at fair value on acquisition date and no allowance is recorded on acquisition date as credit losses are included in the determination of the fair value. Under IFRS, these purchased impaired loans will not be included in impaired loans as long as expected cash flows continue to equal or exceed the amounts expected at acquisition.

### (b) Allowance for credit losses

| | 2011 | | | | | | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Balance at beginning of year | Write-offs[1] | Recoveries | Provision for credit losses | Other, including foreign currency adjustment[2] | Balance at end of year | Balance at end of year | Balance at end of year |
| Specific | | | | | | | | |
| Residential mortgages | **$ 222** | **$ (130)** | **$ 55** | **$ 176** | **$ (55)** | **$ 268** | $ 222 | $ 241 |
| Personal and credit cards | **666** | **(1,002)** | **223** | **763** | **33** | **683** | 666 | 688 |
| Business and government | **498** | **(192)** | **71** | **167** | **(22)** | **522** | 498 | 452 |
| | **1,386** | **(1,324)** | **349** | **1,106** | **(44)** | **1,473[3]** | 1,386[3] | 1,381[3] |
| Sectoral[4] | – | – | – | – | – | – | – | 44 |
| General[5][6] | **1,410** | – | – | **(60)** | **2** | **1,352** | 1,410 | 1,450 |
| | **$ 2,796** | **$ (1,324)** | **$ 349** | **$ 1,046** | **$ (42)** | **$ 2,825** | $ 2,796 | $ 2,875 |

(1) Loans restructured during the year amounted to $28 (2010 – $216). Write-offs of loans restructured during the year were $39 (2010 – $33; 2009 – nil).
(2) Includes $nil in specific allowances and $2 in general allowance related to acquisitions in 2011, $14 in specific allowances from acquisitions in 2010, and $9 in specific allowances from acquisitions in 2009.
(3) As at October 31, 2011 $8 (2010 – $9; 2009 – $5) has been recorded in other liabilities.
(4) The sectoral allowance was established to reflect the deterioration in the automotive industry sector, within the business and government category.
(5) The general allowance amount is primarily attributable to business and government loans ($1,109), with the remainder allocated to personal and credit cards ($187) and residential mortgages ($56). The specific allowance for credit losses for personal loans, credit cards and mortgages is formula-based and also reflects incurred but not yet identified losses. The $60 reduction of the general allowance in 2011 was attributable to an improvement in the credit quality of the portfolio, and to a lesser extent, a stronger Canadian dollar.
(6) The changes to the General Allowance are on an overall portfolio basis and would be reflected as either a net reversal or provisions no longer required or net new provisions. There are no write-offs against the General Allowance, as write-offs would only be applied to individual loans against established specific allowances.

## 6 Variable interest entities

### (a) Consolidated VIEs:

The following table provides information about variable interest entities (VIEs) that the Bank consolidated.

| As at October 31 ($ millions) | 2011 Total assets | 2010 Total assets |
|---|---|---|
| Funding vehicles | **$11,578** | $8,874 |
| Other | **509** | 306 |

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

During the year, the Bank issued covered bonds for Australian $1.0 billion and U.S. $2.0 billion. Scotia Covered Bond Trust (SCB Trust) guarantees payments under the Bank's covered bond program. Canada Mortgage and Housing Corporation insured residential mortgages are the primary assets held by SCB Trust which is a VIE. The Bank consolidates SCB Trust as it is exposed to a majority of variability of its assets. Total assets in SCB Trust were $11.3 billion as at October 31, 2011 (October 31, 2010 – $7.7 billion) (refer to Note 24(d)).

The assets supporting the obligations of the consolidated VIEs as at October 31, 2011 are as follows: cash and non-interest bearing deposits with banks of nil (2010 – $304 million); Canadian residential mortgage loans of $11,521 million (2010 – $8,446 million); trading securities of $404 million (2010 – $241 million); and other assets of $162 million (2010 – $189 million). In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to the Bank except where the Bank has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

### (b) Other VIEs

The following table provides information about other VIEs in which the Bank has a significant variable interest but is not the primary beneficiary. A significant variable interest is generally considered to exist where the Bank absorbs or receives between 10% and 50% of the VIE's expected losses, expected residual returns, or both.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| As at October 31 ($ millions) | Total assets | Maximum exposure to loss | Total assets | Maximum exposure to loss |
| Multi-seller conduits that the Bank administers | **$5,328** | **$5,328** | $4,106 | $4,106 |
| Structured finance entities | **2,459** | **1,222** | 3,117 | 2,048 |
| Collateralized debt obligation entities | **598** | **53** | 63 | 23 |
| Other | **703** | **188** | 669 | 166 |

The Bank's maximum exposure to loss as at October 31 represents the notional amounts of guarantees, liquidity facilities, and other credit support relationships with the VIE, the credit risk amount for certain derivative contracts with the entities, and the amount invested where the Bank holds an ownership interest in the VIE. Of the aggregate amount of maximum exposure to loss, the Bank has recorded $1.4 billion (2010 – $2.2 billion), primarily its interest in the VIEs, on its Consolidated Balance Sheet as at October 31, 2011.

*Multi-seller conduits that the Bank administers*

The Bank currently sponsors three multi-seller conduits, two of which are Canadian-based and one in the United States. The conduits purchase assets from outside parties (the sellers) funded by the issuance of asset-backed commercial paper. The sellers continue to service the assets and provide credit enhancements for their portion of the programs through overcollateralization protection and cash reserves. The Bank has no rights to these assets as they are available to support the obligations of the respective programs, but manages for a fee the commercial paper selling programs.

To ensure timely repayment of the commercial paper, each asset pool financed by the multi-seller conduits has a deal-specific liquidity asset purchase agreement (LAPA) with the Bank that generally equals 102% of the assets purchased or committed to be purchased. The administrative agent can require the liquidity provider to perform under its asset purchase agreement in the event the conduit is unable to access the commercial paper market. The Bank is not obligated to purchase assets from the conduits in the event the conduit meets the requirements of an insolvency event. Pursuant to the terms of the LAPA, the Bank as the liquidity provider is obligated to purchase assets, including defaulted assets, where applicable, transferred by the conduit at the conduit's original cost as reflected in the table above. As well, in some instances the Bank is counterparty to derivative contracts with these conduit programs and provides them with a large portion of their backstop liquidity and partial credit enhancement facilities (see Note 24). The Bank provides additional liquidity facilities to these multi-seller conduits to a maximum amount of $4.2 billion (2010 – $3.9 billion) based on future asset purchases by these conduits.

During fiscal 2011 and 2010, there were no changes to the obligations of the subordinated note holder and no reconsideration events have occurred.

*Structured finance entities*

This includes special purpose entities used to assist corporate clients in accessing cost-efficient financing through their securitization structures. The decrease from the prior year is a result of regular amortizations and paydowns on or before maturity.

*Collateralized debt obligation entities*

The Bank holds an interest in VIEs structured to match specific investor requirements. Loans or credit derivatives are held by the VIEs to create security offerings for investors that match their investment needs and preferences. The Bank's maximum exposure to loss includes the credit risk amounts relating to derivative contracts with these VIEs.

*Other*

Other includes investments in privately managed funds and other VIEs. The Bank's maximum exposure to loss includes its net investment in these funds.

## 7 Land, buildings and equipment

| As at October 31 ($ millions) | Cost | Accumulated depreciation & amortization | 2011 Net book value | 2010 Net book value |
|---|---|---|---|---|
| Land | $ 349 | $ – | **$ 349** | $ 328 |
| Buildings | 1,977 | 762 | **1,215** | 1,199 |
| Equipment | 3,234 | 2,650 | **584** | 525 |
| Leasehold improvements | 1,120 | 716 | **404** | 398 |
| Total | $ 6,680 | $ 4,128 | **$ 2,552** | $ 2,450 |

Depreciation and amortization in respect of the above buildings, equipment, and leasehold improvements for the year amounted to $274 million (2010 – $236 million; 2009 – $234 million).

## 8 Goodwill and other intangible assets

### Goodwill

The changes in the carrying amount of goodwill by main operating segment are as follows:

| As at October 31 ($ millions) | Canadian Banking | International Banking | Scotia Capital | Global Wealth Management | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| Balance at beginning of year | $ 829 | $ 2,101 | $ 120 | $ – | **$ 3,050** | $ 2,908 | $ 2,273 |
| Reclassification due to re-organization of operating segments | (496) | (273) | – | 769 | **–** | – | – |
| Acquisitions | – | 87 | – | 1,233 | **1,320** | 281 | 603 |
| Effects of foreign exchange and other | 6 | (16) | 5 | 12 | **7** | (139) | 32 |
| Balance at end of year | $ 339 | $ 1,899 | $ 125 | $ 2,014 | **$ 4,377** | $ 3,050 | $ 2,908 |

Goodwill was assessed for impairment as at October 31, 2011, based on the seven reporting units, and no impairment charge was recorded.

### Intangible assets

| | Finite useful life | | | Indefinite useful life | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Cost | Accumulated Amortization | Net | Cost | | | |
| Computer software | $ 653 | $ (154) | $ 499 | $ – | **$ 499** | $ 357 | $ 301 |
| Fund management contracts | – | – | – | 2,325 | **2,325** | – | – |
| Other intangible | 881 | (483) | 398 | 65 | **463** | 232 | 260 |
| Total | $ 1,534 | $ (637) | $ 897 | $ 2,390 | **$ 3,287** | $ 589 | $ 561 |

Other intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense of total intangible assets for the year ended October 31, 2011, was $137 million (2010 – $98 million; 2009 – $96 million).

The intangible assets acquired during the year include $600 million (2010 – $133 million) of intangible assets with finite useful lives and $2,390 million (2010 – nil) of intangible assets with indefinite useful lives.

## 9 Other assets

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| Accrued interest | **$ 1,485** | $ 1,447 |
| Accounts receivable | **2,036** | 1,565 |
| Future income tax assets (Note 19) | **1,496** | 2,219 |
| Receivable from brokers, dealers and clients | **763** | 292 |
| Pension assets[1] (Note 20) | **1,645** | 1,612 |
| Receivable from the Federal Deposit Insurance Corporation[2] | **775** | 852 |
| Other | **3,832** | 3,379 |
| Total | **$ 12,032** | $ 11,366 |

(1) Includes only principal plans.
(2) This is related to the Bank's subsidiary, R-G Premier Bank of Puerto Rico.

## 10 Deposits

| | Payable on demand | | Payable after notice | Payable on a fixed date | 2011 | 2010 |
|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Interest-bearing | Non-interest-bearing | | | | |
| Personal | $ 5,014 | $ 3,536 | $ 53,445 | $ 71,030 | **$ 133,025** | $ 128,850 |
| Business and government[1] | 36,494 | 14,121 | 13,545 | 177,846 | **242,006** | 210,687 |
| Banks | 342 | 817 | 448 | 19,738 | **21,345** | 22,113 |
| Total | $ 41,850 | $ 18,474 | $ 67,438 | $ 268,614 | **$ 396,376** | $ 361,650 |
| Recorded in: | | | | | | |
| Canada | | | | | **253,677** | 242,483 |
| United States | | | | | **74,324** | 49,238 |
| Mexico | | | | | **8,513** | 9,206 |
| Other International | | | | | **59,862** | 60,723 |
| Total[2] | | | | | **$ 396,376** | $ 361,650 |

(1) Includes deposit notes issued by the Bank to Scotiabank Capital Trust of $2,250 (2010 – $2,250), Scotiabank Subordinated Notes Trust of $1,000 (2010 – $1,000) and Scotiabank Tier 1 Trust of $650 (2010 – $650) [refer to Note 13].
(2) Deposits denominated in U.S. dollars amount to $151,290 (2010 – $122,752), deposits denominated in Mexican pesos amount to $7,818 (2010 – $8,389) and deposits denominated in other foreign currencies amount to $30,767 (2010 – $31,386).

## 11 Other liabilities

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| Accrued interest | **$ 1,881** | $ 2,031 |
| Accounts payable and accrued expenses | **5,792** | 5,274 |
| Deferred income | **717** | 680 |
| Future income tax liabilities (Note 19) | **504** | 444 |
| Gold and silver certificates and bullion | **3,931** | 5,153 |
| Margin and collateral accounts | **4,149** | 3,360 |
| Payable to brokers, dealers and clients | **245** | 58 |
| Other liabilities of subsidiaries and VIEs[1][2] | **8,046** | 8,535 |
| Pension liabilities[3] (Note 20) | **246** | 235 |
| Other | **3,473** | 3,177 |
| Total | **$ 28,984** | $ 28,947 |

(1) Excludes deposits and capital instrument liabilities.
(2) Includes a note liability of $2,118 (2010 – $2,850) to the Federal Deposit Insurance Corporation related to the Bank's subsidiary, R-G Premier Bank of Puerto Rico. The Bank has an obligation to use the reimbursements from the FDIC under the loss-sharing agreement to pay down the outstanding principal balance of the Note. The Note may be repaid without penalty (prepayments can be made after giving 60 days prior notice of the Bank's intention to prepay). The original terms required the entire outstanding principal balance of the Note to be repaid in one year from issuance or at an earlier date if an event of default occurred and is continuing but with an option to renew (with a 60 day notice period) by terms of a year up to 2015. The Note has since been renewed in April 2011. The interest rate for the first year is 0.881% and adjusts for each subsequent renewal period based on the current one-year U.S. Treasury Bill rate plus 50 basis points.
(3) Includes only principal plans.

## 12 Subordinated debentures

These debentures are direct, unsecured obligations of the Bank and are subordinate to the claims of the Bank's depositors and other creditors. The Bank, where appropriate, enters into interest rate and cross-currency swaps to hedge the related risks.

| As at October 31 ($ millions) | | | 2011 | | 2010 |
|---|---|---|---|---|---|
| Maturity date | Interest rate (%) | Terms[1] | Par value | Carrying value[2] | Carrying value[2] |
| September 2013 | 8.30 | Redeemable at any time | **$ 250** | **$ 251** | $ 251 |
| January 2018 | 5.30 | Redeemable at any time. After January 31, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1.90% | **300** | **300** | 300 |
| March 2018 | 4.99 | Redeemable at any time. After March 27, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 2% | **1,700** | **1,713** | 1,722 |
| October 2018 | 6.00 | Redeemable at any time. After October 3, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 3.25% | **950** | **950** | 950 |
| April 2019 | 4.94 | Redeemable at any time. After April 15, 2014, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 4.24% | **1,000** | **1,000** | 1,000 |
| January 2021 | 6.65 | Redeemable at any time. After January 22, 2016, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 5.85% | **1,000** | **1,000** | 1,000 |
| June 2025 | 8.90 | Redeemable at any time | **250** | **268** | 270 |
| November 2037 | 3.015 | JPY ¥10 billion. Redeemable on November 20, 2017 | **128** | **134** | 134 |
| April 2038 | 3.37 | JPY ¥10 billion. Redeemable on April 9, 2018 | **128** | **136** | 137 |
| August 2085 | Floating | US $172 million bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%. Redeemable on any interest payment date. Total repurchases in fiscal 2011 were approximately nil (2010 – US $10 million) | **171** | **171** | 175[3] |
| | | | **$ 5,877** | **$5,923** | $ 5,939 |

The contractual maturities of the debentures are summarized in Note 25(b).

(1) In accordance with the provisions of the Capital Adequacy Guideline of the Superintendent, all redemptions are subject to regulatory approval.
(2) The carrying value of subordinated debentures may differ from par value due to adjustments related to hedge accounting.
(3) For the year ended October 31, 2010, the Bank recorded a net realized gain of $4 related to repurchases of subordinated debentures.

## 13 Capital instrument liabilities, trust securities and trust subordinated notes

Capital instrument liabilities are financial instruments, which can be settled at the Bank's option by issuing a variable number of the Bank's own equity instruments. These instruments remain eligible as Tier 1 Capital for regulatory purposes.

Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust, and Scotiabank Tier 1 Trust are VIEs and are not consolidated on the Bank's balance sheet as the Bank is not the primary beneficiary. Therefore, the Scotiabank Trust Securities, Scotiabank Trust Subordinated Notes and the Scotiabank Tier 1 Trust Securities Notes issued by the Trusts are not reported on the Consolidated Balance Sheet. The deposit notes issued by the Bank to Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust are reported in Deposits [refer to Note 10]. These trust securities and trust subordinated notes remain eligible for inclusion in the Bank's regulatory capital as Tier 1 and Tier 2 capital, respectively.

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| Capital instrument liabilities | | |
| Scotiabank Trust Securities – Series 2000-1 issued by BNS Capital Trust[(a)] | $ – | $ 500 |
| Scotiabank Trust Securities not consolidated by the Bank | | |
| Scotiabank Trust Securities – Series 2002-1 issued by Scotiabank Capital Trust[(b)(f)(g)] | $ 750 | $ 750 |
| Scotiabank Trust Securities – Series 2003-1 issued by Scotiabank Capital Trust[(c)(f)(g)] | 750 | 750 |
| Scotiabank Trust Securities – Series 2006-1 issued by Scotiabank Capital Trust[(d)(f)(g)] | 750 | 750 |
| Scotiabank Tier 1 Securities – Series 2009-1 issued by Scotiabank Tier 1 Trust[(e)(f)(g)] | 650 | 650 |
| Scotiabank Trust Subordinated Notes not consolidated by the Bank | | |
| Scotiabank Trust Subordinated Notes – Series A issued by Scotiabank Subordinated Notes Trust[(h)] | $ 1,000 | $ 1,000 |

(a) On December 31, 2010, BNS Capital Trust redeemed all of its $500 million issued and outstanding Scotiabank Trust Securities – Series 2000-1.

(b) On April 30, 2002, Scotiabank Capital Trust, a wholly owned open-end trust, issued 750,000 Scotiabank Trust Securities – Series 2002-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $33.13 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series W of the Bank. The Series W shares will be entitled to cash dividends payable semi-annually in an amount of $0.53125 per $25.00 share. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series X of the Bank. The Series X shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.70 per $25.00 share [refer to Notes 14 and 15 – Restrictions on dividend payments]. In certain circumstances, on or after December 31, 2012, the Non-cumulative Preferred Shares Series W and the Non-cumulative Preferred Shares Series X are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series X of the Bank, then the Bank would become the sole beneficiary of the Trust.

(c) On February 13, 2003, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities – Series 2003-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $31.41 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series U of the Bank. The Series U shares will be entitled to cash dividends payable semi-annually in an amount of $0.50 per $25.00 share. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares Series V of the Bank. The Series V shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.61250 per $25.00 share [refer to Notes 14 and 15 – Restrictions on dividend payments]. In certain circumstances on or after December 31, 2013, the Non-cumulative Preferred Shares Series U and the Non-cumulative Preferred Shares Series V are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series V of the Bank, then the Bank would become the sole beneficiary of the Trust.

(d) On September 28, 2006, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities – Series 2006-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $28.25 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash prior to December 30, 2011, upon the occurrence of certain tax or regulatory capital changes, or on or after December 30, 2011, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series S of the Bank. The Series S shares will be entitled to cash dividends payable semi-annually in an amount of $0.4875 per $25.00 share [refer to Notes 14 and 15 – Restrictions on dividend payments]. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series T of the Bank. The Series T shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.625 per $25.00 share. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series T of the Bank, then the Bank would become the sole beneficiary of the Trust.

(e) On May 7, 2009, Scotiabank Tier 1 Trust issued 650,000 Scotiabank Tier 1 Securities Series 2009-1 (Scotia BaTS III). These securities qualify as Tier 1 capital. Interest is payable semi-annually in the amount of $39.01 per Scotia BaTS III Series 2009-1 on the last day of June and December until June 30, 2019. After June 30, 2019 and on every fifth anniversary thereafter until June 30, 2104, the interest rate on the Scotia BaTS III Series 2009-1 will be reset at an interest rate per annum equal to the then prevailing 5-year Government of Canada Yield plus 7.05%. On or after June 30, 2014, the Trust may, at its option redeem the Scotia BaTS III Series 2009-1, in whole or in part, subject to regulatory approval. Under the circumstances outlined in (f) below, the Scotia BaTS III Series 2009-1, including accrued and unpaid interest thereon, would be exchanged automatically without the consent of the holder, into newly issued non-cumulative Preferred Shares Series R of the Bank. In addition, in certain circumstances, holders of Scotia BaTS III Series 2009-1 may be required to invest interest paid on the Scotia BaTS III Series 2009-1 in a series of newly issued preferred shares of the Bank with non-cumulative dividends (each such series is referred to as Bank Deferral Preferred Shares). The proceeds of the issue were used to acquire the Series 2009-1 Bank Deposit Note. If there is an automatic exchange of the Scotia BaTS Preferred Shares, then the Bank would become the sole beneficiary of the Trust. Scotiabank Tier 1 Trust which is a special purpose entity is not consolidated by the Bank as the Bank is not the primary beneficiary. These securities are reported on the Consolidated Balance Sheet as deposit notes issued by the Bank to Scotiabank Tier 1 Trust.

(f) The Scotia BaTS and Scotia BaTS III may be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares of the Bank in the following circumstances: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; or (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction.

(g) No cash distributions will be payable on the Scotia BaTS and Scotia BaTS III in the event that the regular dividend is not declared on the Bank's preferred shares and, if no preferred shares are outstanding, the Bank's common shares. In such a circumstance, the net distributable funds of the Trust will be payable to the Bank as the holder of the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions on the Scotia BaTS in full, the Bank will not declare dividends of any kind on any of its preferred or common shares for a specified period of time [refer to Notes 14 and 15 – Restrictions on dividend payments].

(h) On October 31, 2007, the Bank issued 1,000,000 Scotiabank Trust Subordinated Notes ("Scotia TSNs – Series A"), through a special purpose entity, Scotiabank Subordinated Notes Trust, a closed-end trust established under the laws of the Province of Ontario. The proceeds were used to purchase a deposit note from the Bank which is reported as a Business and government deposit in the Consolidated Balance Sheet. Holders of the Scotia TSNs – Series A are entitled to receive interest at the rate of 5.25% per annum payable semi-annually until October 31, 2012. Commencing November 1, 2012 until November 1, 2017, interest will be payable on the Scotia TSNs – Series A at the 90-day Banker's Acceptance Rate plus 1% per annum payable quarterly with the first such payment on February 1, 2013. These securities may be redeemed in whole by the payment of cash with regulatory approval.

The Bank has guaranteed the payments of principal, interest, redemption price, if any, and any other amounts on the Scotia TSNs – Series A when they become due and payable. This guarantee will be a direct, unsecured obligation, and will be subordinate to the Bank's deposit liabilities and all other liabilities, except for other guarantees, obligations or liabilities that are either designated as ranking equally with or subordinated to the subordinated indebtedness. In addition, the Scotia TSNs – Series A will be automatically exchanged, without the consent of the holders, into an equal principal amount of 5.25% Bank Subordinated Notes upon occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction; or (v) the Bank determines that as a result of the enactment or anticipated enactment of federal Canadian income tax legislation, the interest payable on the Scotia TSNs – Series A will not be deductible by Scotiabank Subordinated Notes Trust for tax purposes.

## 14 Preferred shares

Authorized:

An unlimited number of preferred shares without nominal or par value.

Issued and fully paid:

| As at October 31 ($ millions) | 2011 Number of shares | 2011 Amount | 2010 Number of shares | 2010 Amount | 2009 Number of shares | 2009 Amount |
|---|---|---|---|---|---|---|
| Preferred shares[(a)]: | | | | | | |
| Series 12[(b)] | **12,000,000** | **$ 300** | 12,000,000 | $ 300 | 12,000,000 | $ 300 |
| Series 13[(c)] | **12,000,000** | **300** | 12,000,000 | 300 | 12,000,000 | 300 |
| Series 14[(d)] | **13,800,000** | **345** | 13,800,000 | 345 | 13,800,000 | 345 |
| Series 15[(e)] | **13,800,000** | **345** | 13,800,000 | 345 | 13,800,000 | 345 |
| Series 16[(f)] | **13,800,000** | **345** | 13,800,000 | 345 | 13,800,000 | 345 |
| Series 17[(g)] | **9,200,000** | **230** | 9,200,000 | 230 | 9,200,000 | 230 |
| Series 18[(h)] | **13,800,000** | **345** | 13,800,000 | 345 | 13,800,000 | 345 |
| Series 20[(i)] | **14,000,000** | **350** | 14,000,000 | 350 | 14,000,000 | 350 |
| Series 22[(j)] | **12,000,000** | **300** | 12,000,000 | 300 | 12,000,000 | 300 |
| Series 24[(k)] | **10,000,000** | **250** | 10,000,000 | 250 | 10,000,000 | 250 |
| Series 26[(l)] | **13,000,000** | **325** | 13,000,000 | 325 | 13,000,000 | 325 |
| Series 28[(m)] | **11,000,000** | **275** | 11,000,000 | 275 | 11,000,000 | 275 |
| Series 30[(n)] | **10,600,000** | **265** | 10,600,000 | 265 | – | – |
| Series 32[(o)] | **16,345,767** | **409** | – | – | – | – |
| Total preferred shares | **175,345,767** | **$ 4,384** | 159,000,000 | $ 3,975 | 148,400,000 | $ 3,710 |

### Terms of preferred shares

| | Dividends per share[(a)] | Issue date | Issue price | Initial dividend | Initial dividend payment date | Dividend reset rate[(a)] | Redemption date | Redemption price |
|---|---|---|---|---|---|---|---|---|
| Preferred shares | | | | | | | | |
| Series 12[(b)] | 0.328125 | July 14, 1998 | $ 25.00 | $ 0.381164 | October 28, 1998 | – | October 29, 2013 | $ 25.00 |
| Series 13[(c)] | 0.300000 | March 15, 2005 | 25.00 | 0.440500 | July 27, 2005 | – | April 27, 2011 to April 25, 2012 | 25.75 |
| Series 14[(d)] | 0.281250 | January 24, 2007 | 25.00 | 0.283560 | April 26, 2007 | – | April 26, 2012 | 26.00 |
| Series 15[(e)] | 0.281250 | April 5, 2007 April 17, 2007 | 25.00 | 0.348290 | July 27, 2007 | – | July 27, 2012 | 26.00 |
| Series 16[(f)] | 0.328125 | October 12, 2007 | 25.00 | 0.391950 | January 29, 2008 | – | January 29, 2013 | 26.00 |
| Series 17[(g)] | 0.350000 | January 31, 2008 | 25.00 | 0.337530 | April 28, 2008 | – | April 26, 2013 | 26.00 |
| Series 18[(h)] | 0.312500 | March 25, 2008 March 27, 2008 | 25.00 | 0.431500 | July 29, 2008 | 2.05% | April 26, 2013 | 25.00 |
| Series 20[(i)] | 0.312500 | June 10, 2008 | 25.00 | 0.167800 | July 29, 2008 | 1.70% | October 26, 2013 | 25.00 |
| Series 22[(j)] | 0.312500 | September 9, 2008 | 25.00 | 0.482900 | January 28, 2009 | 1.88% | January 26, 2014 | 25.00 |
| Series 24[(k)] | 0.390600 | December 12, 2008 | 25.00 | 0.586500 | April 28, 2009 | 3.84% | January 26, 2014 | 25.00 |
| Series 26[(l)] | 0.390625 | January 21, 2009 | 25.00 | 0.415240 | April 28, 2009 | 4.14% | April 26, 2014 | 25.00 |
| Series 28[(m)] | 0.390625 | January 30, 2009 | 25.00 | 0.376710 | April 28, 2009 | 4.46% | April 26, 2014 | 25.00 |
| Series 30[(n)] | 0.240625 | April 12, 2010 | 25.00 | 0.282200 | July 28, 2010 | 1.00% | April 26, 2015 | 25.00 |
| Series 32[(o)] | 0.231250 | February 1, 2011 February 28, 2011 | 25.00 | 0.215410 | April 27, 2011 | 1.34% | February 2, 2016 | 25.00 |

(a) Non-cumulative preferential cash dividends on Series 12, 13, 14, 15, 16, 17, 18, 20, 22, 24, 26, 28, 30 and 32 are payable quarterly, as and when declared by the Board. Dividends on the Non-cumulative 5-Year Rate Reset Preferred Shares (Series 18, 20, 22, 24, 26, 28, 30 and 32) are payable at the applicable rate for the initial five-year fixed rate period ending one day prior to the redemption date. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividend on all Rate Reset Preferred Shares will be determined by the sum of the 5-year Government of Canada Yield plus the indicated dividend reset rate, multiplied by $25.00. If outstanding, non-cumulative preferential cash dividends on the Series 19, 21, 23, 25, 27, 29, 31 and 33 are payable quarterly, as and when declared by the Board. Dividends on the Non-cumulative 5-year Rate Reset Preferred Shares (Series 19, 21, 23, 25, 27, 29, 31 and 33) are payable, in an amount per share equal to the sum of the T-Bill Rate plus the dividend reset rate of the converted preferred shares, multiplied by $25.00. Holders of Fixed Rate Reset Preferred Shares will have the option to convert shares into an equal number of the relevant series of Floating Rate Preferred Shares on the applicable Rate Reset Series conversion date and every five years thereafter. If the Bank determines that, after giving effect to any Election Notices received, there would be less than 1,000,000 Series 18, 20, 22, 24, 26, 28, 30 or 32 preferred shares issued and outstanding on the applicable conversion date, all of the issued and outstanding Series 18, 20, 22, 24, 26, 28, 30 or 32 preferred shares will be automatically converted on the applicable conversion date into an equal number of Series 19, 21, 23, 25, 27, 29, 31 or 33 preferred shares.

(b) With regulatory approval, the Series 12 Non-cumulative Preferred Shares may be redeemed by the Bank at par on or after October 29, 2013, in whole or in part, by the payment in cash of

$25.00 per share, together with declared and unpaid dividends to the date then fixed for redemption.

(c) With regulatory approval, the Series 13 Non-cumulative Preferred Shares may be redeemed by the Bank during the period commencing April 27, 2011 and ending April 25, 2012 at $25.75 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 27, 2014, following which no redemption premium is payable.

(d) With regulatory approval, the Series 14 Non-cumulative Preferred Shares may be redeemed by the Bank during the period commencing April 26, 2012 and ending April 25, 2013 at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 26, 2016, following which no redemption premium is payable.

(e) With regulatory approval, the Series 15 Non-cumulative Preferred Shares may be redeemed by the Bank during the period commencing July 27, 2012 and ending July 28, 2013 at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until July 26, 2016, following which no redemption premium is payable.

(f) With regulatory approval, the Series 16 Non-cumulative Preferred Shares may be redeemed by the Bank on or after January 29, 2013, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until January 26, 2017, following which no redemption premium is payable.

(g) With regulatory approval, the Series 17 Non-cumulative Preferred Shares may be redeemed by the Bank on or after April 26, 2013, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 25, 2017, following which no redemption premium is payable.

(h) Holders of Series 18 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 19 non-cumulative floating rate preferred shares on April 26, 2013, and on April 26 every five years thereafter. With regulatory approval, Series 18 preferred shares may be redeemed by the Bank on April 26, 2013, and for Series 19 preferred shares, if applicable, on April 26, 2018 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(i) Holders of Series 20 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 21 non-cumulative floating rate preferred shares on October 26, 2013, and on October 26 every five years thereafter. With regulatory approval, Series 20 preferred shares may be redeemed by the Bank on October 26, 2013, and for Series 21 preferred shares, if applicable, on October 26, 2018 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(j) Holders of Series 22 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 23 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. With regulatory approval, Series 22 preferred shares may be redeemed by the Bank on January 26, 2014, and for Series 23 preferred shares, if applicable, on January 26, 2019 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(k) Holders of Series 24 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 25 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. With regulatory approval, Series 24 preferred shares may be redeemed by the Bank on January 26, 2014, and, if applicable, Series 25 preferred shares on January 26, 2019 and every five years thereafter, respectively, for $25.00 per share, together with declared and unpaid dividends.

(l) Holders of Series 26 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 27 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. With regulatory approval, Series 26 preferred shares may be redeemed by the Bank on April 26, 2014, and for Series 27 preferred shares, if applicable, on April 26, 2019, and every five years thereafter, respectively, at $25.00 per share, together with declared but unpaid dividends.

(m) Holders of Series 28 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 29 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. With regulatory approval, Series 28 preferred shares may be redeemed by the Bank on April 26, 2014 and for Series 29 preferred shares, if applicable, on April 26, 2019 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(n) Holders of Series 30 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 31 non-cumulative floating rate preferred shares on April 26, 2015, and on April 26 every five years thereafter. With regulatory approval, Series 30 preferred shares may be redeemed by the Bank on April 26, 2015, and for Series 31 preferred shares, if applicable, on April 26, 2020 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(o) Holders of Series 32 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 33 non-cumulative floating rate preferred shares on February 2, 2016, and on February 2 every five years thereafter. With regulatory approval, Series 32 preferred shares may be redeemed by the Bank on February 2, 2016, and for Series 33 preferred shares, if applicable, on February 2, 2021 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

*Restrictions on dividend payments*

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

In the event that applicable cash distributions on any of the Scotiabank Trust Securities [refer to Note 13 Capital instrument liabilities] are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities. Currently, these limitations do not restrict the payment of dividends on preferred or common shares.

For each of the years presented, the Bank paid all of the non-cumulative preferred share dividends.

## 15 Common shares

Authorized:

An unlimited number of common shares without nominal or par value.

Issued and fully paid:

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| Common shares: | | | | | | |
| Outstanding at beginning of year | **1,042,912,914** | **$ 5,750** | 1,024,939,384 | $ 4,946 | 991,923,631 | $ 3,829 |
| Issued under Shareholder Dividend and Share Purchase Plan(1) | **11,651,346** | **632** | 12,577,506 | 623 | 14,304,029 | 516 |
| Issued in relation to stock-based compensation, net (Note 18) | **3,014,910** | **151** | 5,396,024 | 181 | 3,650,978 | 78 |
| Issued in relation to the acquisition of a subsidiary or associated corporation | **31,393,003** | **1,803(2)** | – | – | 15,060,746 | 523 |
| Outstanding at end of year | **1,088,972,173(3)(4)** | **$ 8,336** | 1,042,912,914(3) | $ 5,750 | 1,024,939,384(3) | $ 4,946 |

(1) As at October 31, 2011, there were 7,767,978 common shares held in reserve under the Shareholder Dividend and Share Purchase Plan.
(2) Includes $1,796 issued in relation to the acquisition of DundeeWealth Inc. (See Note 29).
(3) In the normal course of business, the Bank's regulated Dealer subsidiary purchases and sells the Bank's common shares to facilitate trading/institutional client activity. During fiscal 2011, the number of such shares bought and sold was 14,416,246 (2010 – 13,319,524; 2009 – 13,134,586).
(4) Excludes 506,807 shares held by the Bank in relation to stock-based compensation plans cancelled.

*Restrictions on dividend payments*

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

In the event that applicable cash distributions on any of the Scotiabank Trust Securities [refer to Note 13 Capital instrument liabilities] are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities. Currently, these limitations do not restrict the payment of dividends on preferred or common shares.

## 16 Capital management

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This capital management process aims to achieve four major objectives: exceed regulatory thresholds and meet longer-term internal capital targets, maintain strong credit ratings, manage capital levels commensurate with the risk profile of the Bank and provide the Bank's shareholders with acceptable returns.

Capital is managed in accordance with the Board-approved Capital Management Policy. Senior executive management develop the capital strategy and oversee the capital management processes of the Bank. The Bank's Finance, Group Treasury and Global Risk Management (GRM) groups are key in implementing the Bank's capital strategy and managing capital. Capital is managed using both regulatory capital measures and internal metrics.

Although the Bank is subject to several capital regulations in the different business lines and countries in which the Bank operates, capital adequacy is managed on a consolidated Bank basis. The Bank also takes measures to ensure its subsidiaries meet or exceed local regulatory capital requirements. The primary regulator of its consolidated capital adequacy is the Office of the Superintendent of Financial Institutions Canada (OSFI). The capital adequacy regulations in Canada are largely consistent with international standards set by the Bank for International Settlements.

Regulatory capital ratios are determined in accordance with the capital framework, based on the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, commonly known as Basel II.

Under this framework there are two main methods for computing credit risk: the standardized approach, which uses prescribed risk weights; and internal ratings-based approaches, which allow the use of a bank's internal models to calculate some, or all, of the key inputs into the regulatory capital calculation. Users of the Advanced Internal Ratings Based Approach (AIRB) are required to have sophisticated risk management systems for the calculations of credit risk regulatory capital. Once banks demonstrate full compliance with the AIRB requirements, and the Superintendent has approved its use, they may proceed to apply the AIRB approach in computing capital requirements.

The Bank uses the Advanced Internal Ratings Based Approach (AIRB) to compute credit risk for material Canadian, U.S. and European portfolios and effective 2011, for a significant portion of international corporate and commercial portfolios. The Bank is targeting the remaining material credit portfolios for application of AIRB approach by fiscal 2014, and currently uses the standardized approach for these portfolios. The Bank uses both internal models and standardized approaches to calculate market risk capital. During the year, the Bank expanded the use of internal market risk models to include some portfolios that were previously under the standardized approach. The Bank uses the standardized approach to calculate the operational risk capital requirements.

The Bank's total regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| Shareholders' equity per Consolidated Balance Sheet | **$ 32,760** | $ 27,631 |
| Components of accumulated other comprehensive income excluded from Tier 1 capital | **(444)** | (457) |
| Capital Instrument liabilities – trust securities | **2,900** | 3,400 |
| Non-controlling Interest in subsidiaries | **640** | 579 |
| Goodwill/Non qualifying Intangibles deduction | **(4,662)** | (3,050) |
| Other capital deductions[1] | **(2,705)** | (2,769) |
| Tier 1 capital | **$ 28,489** | $ 25,334 |
| Qualifying subordinated debentures, net of amortization | **5,723** | 5,790 |
| Trust subordinated notes | **1,000** | 1,000 |
| Other net capital items[2] | **(2,679)** | (2,525) |
| Tier 2 capital | **4,044** | 4,265 |
| Total regulatory capital | **$ 32,533** | $ 29,599 |
| Total risk weighted assets | **$ 233,970** | $ 215,034 |
| Capital ratios | | |
| Tier 1 capital ratio | **12.2%** | 11.8% |
| Total capital ratio | **13.9%** | 13.8% |
| Assets-to-capital multiple | **16.6x** | 17.0x |

(1) Comprised of 50% of all investments in certain specified corporations and other items.
(2) Comprised of 50% of all investments in certain specified corporations and other items, 100% of investments in insurance entities, offset by eligible allowance for credit losses and net after-tax unrealized gain on available-for-sale equity securities.

The two primary regulatory capital ratios used to assess capital adequacy are the Tier 1 and Total capital ratios, which are determined by dividing those capital components by risk-weighted assets. Risk-weighted assets represent the Bank's exposure to credit, market and operational risk and are computed by applying a combination of the Bank's internal credit risk parameters and OSFI prescribed risk weights to on- and off-balance sheet exposures.

The regulatory minimum ratios prescribed by OSFI are 7% for Tier 1 capital and 10% for Total capital. The Bank substantially exceeded these minimum ratio thresholds as at October 31, 2011. OSFI has also prescribed an asset-to-capital leverage multiple; the Bank was in compliance with this threshold as at October 31, 2011.

## 17 Accumulated other comprehensive income (loss)

The components of accumulated other comprehensive income (loss) as at October 31, 2011 and 2010, and other comprehensive income (loss) for the years then ended are as follows:

### Accumulated other comprehensive income (loss)

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| As at and for the year ended October 31 ($ millions) | Opening balance | Net change | Ending balance | Opening balance | Net change | Ending balance |
| Unrealized foreign currency translation gains (losses), net of hedging activities | **$ (4,508)** | **$ (654)** | **$ (5,162)[1]** | $ (3,917) | $ (591) | $ (4,508)[1] |
| Unrealized gains (losses) on available-for-sale securities, net of hedging activities | **818** | **(119)** | **699[2]** | 540 | 278 | 818[2] |
| Gains (losses) on derivative instruments designated as cash flow hedges | **(361)** | **106** | **(255)[3]** | (423) | 62 | (361)[3] |
| Accumulated other comprehensive income (loss) | **$ (4,051)** | **$ (667)** | **$ (4,718)** | $ (3,800) | $ (251) | $ (4,051) |

(1) Net of cumulative income tax expense of $800 (2010 – expense of $761). As at October 31, 2011, non-derivative instruments designated as net investment hedges amounted to $5,730 (2010 – $5,869).
(2) Net of cumulative income tax expense of $321 (2010 – expense of $371).
(3) Net of cumulative income tax benefit of $ 86 (2010 – benefit of $128). The reclassification from accumulated other comprehensive income to earnings over the next 12 months as a result of outstanding cash flow hedges is expected to be a net after tax loss of approximately $164 (2010 – net after tax loss of $172). As at October 31, 2011, the maximum length of cash flow hedges outstanding was less than 8 years (2010 – 9 years).

### Other comprehensive income (loss)

The following table summarizes the changes in the components of other comprehensive income (loss).

| For the year ended October 31 ($ millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Net change in unrealized foreign currency translation losses** | | | |
| Net unrealized foreign currency translation gains (losses)[1] | **$ (754)** | $ (869) | $ (2,410) |
| Net gains (losses) on hedges of net investments in self-sustaining foreign operations[2] | **100** | 278 | 674 |
| | **(654)** | (591) | (1,736) |
| **Net change in unrealized gains (losses) on available-for-sale securities** | | | |
| Net unrealized gains (losses) on available-for-sale securities[3] | **(63)** | 603 | 872 |
| Reclassification of net (gains) losses to net income[4] | **(56)** | (325) | 22 |
| | **(119)** | 278 | 894 |
| **Net change in gains (losses) on derivative instruments designated as cash flow hedges** | | | |
| Net gains (losses) on derivative instruments designated as cash flow hedges[5] | **68** | (258) | (112) |
| Reclassification of net (gains) losses to net income[6] | **38** | 320 | 155 |
| | **106** | 62 | 43 |
| Other comprehensive income (loss) | **$ (667)** | $ (251) | $ (799) |

(1) Net of income tax expense of nil.
(2) Net of income tax expense of $39 (2010 – expense of $115; 2009 – expense of $328).
(3) Net of income tax benefit of $7 (2010 – expense of $211; 2009 – expense of $277).
(4) Net of income tax expense of $43 (2010 – expense of $128; 2009 – benefit of $59).
(5) Net of income tax expense of $23 (2010 – benefit of $95; 2009 – benefit of $23).
(6) Net of income tax benefit of $18 (2010 – benefit of $141; 2009 – benefit of $67).

## 18 Stock-based compensation

### (a) Stock option plans

Under the terms of the Employee Stock Option Plan, options to purchase common shares may be granted to selected employees at an exercise price not less than the closing price of the Bank's common shares on the Toronto Stock Exchange (TSX) on the day prior to the date of the grant. As well, for grants made beginning December 2005, the exercise price must not be less than the volume weighted average price on the TSX for the five trading days immediately preceding the grant date.

Employee stock options granted between November 1, 2002, and October 31, 2009, have Tandem Stock Appreciation Rights (Tandem SARs), which provide the employee with the choice to either exercise the stock option for shares, or to exercise the Tandem SARs and thereby receive the intrinsic value of the stock option in cash. In addition, in fiscal 2003, Tandem SARs were retroactively attached to the fiscal 2002 employee stock options. All other terms and conditions relating to these 2002 stock options remained unchanged. These 2002 stock options were out of the money at the date of attachment. As a result, there was no impact on the Bank's stock-based compensation expense on the date of the retroactive attachment of the Tandem SARs.

Stock options granted after November 1, 2009 do not include Tandem SAR features as described above and are expensed using the fair value method of accounting.

Options vest evenly over a four-year period and are exercisable no later than 10 years after the date of the grant. In the event that the expiry date falls within an insider trading blackout period, the expiry date will be extended for 10 business days after the end of the blackout period.

An aggregate expense of $46 million (2010 - $25 million) was recorded in salaries and employee benefits in the Consolidated Statement of Income with a corresponding increase to Contributed Surplus in the Consolidated Balance Sheet for all equity-classified awards. Compensation expense related to unrecognized compensation costs for non-vested options was $9 million (2010 – $8 million) to be recognized over the weighted average period of 1.75 years (2010 – 1.84 years).

Outstanding options expire on dates ranging from December 10, 2011 to December 6, 2020. As approved by the shareholders, a total of 129 million common shares have been reserved for issuance under this plan of which 84.4 million common shares have been issued as a result of the exercise of options and 21.3 million common shares are committed under outstanding options, leaving 23.2 million common shares available for issuance as options.

In 2001, a Directors' Stock Option Plan was approved by the shareholders. A total of 800,000 common shares have been reserved for issuance to non-officer directors under this plan.

As of November 1, 2002, director stock options are expensed using a fair value-based method. As at October 31, 2011, 40,000 (2010 – 91,000; 2009 – 140,000) options were outstanding at a weighted average exercise price of $24.46 (2010 – $23.79; 2009 – $23.00). In fiscal 2011, 51,000 of these options (2010 – 49,000; 2009 – 4,000) were exercised at a weighted average exercise price of $23.27 (2010 – $21.54; 2009 – $24.40). The outstanding options expire between December 10, 2011 and December 6, 2012. Commencing in fiscal 2004, the Bank ceased granting stock options to its directors.

During fiscal 2011, 3,414,948 options were granted under the employee stock option plan and as at October 31, 2011, 3,392,776 of these options were outstanding of which 2,671,012 options were vested.

For options granted after November 1, 2009 that do not have the Tandem SAR features, the weighted average fair value of options granted in 2011 was estimated at $9.42 (2010 – $8.47) using the Black-Scholes option pricing model on the date of grant using the following assumptions:

| As at | 2011 | 2010 |
|---|---|---|
| Risk-free interest rate | 2.70% | 2.95% |
| Expected dividend yield | 3.43% | 4.33% |
| Expected price volatility | 23.24% | 27.12% |
| Expected life of option | 6.12 years | 6.03 years |

Details of the Bank's Employee Stock Option Plan are as follows:

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| 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 | **20,988** | **$ 39.14** | 22,889 | $ 33.90 | 22,979 | $ 31.32 |
| Granted | **3,415** | **55.63** | 3,954 | 47.75 | 4,427 | 33.89 |
| Exercised as Options | **(2,800)** | **29.01** | (5,347) | 23.94 | (3,647) | 18.56 |
| Forfeited/cancelled | **(186)** | **37.80** | (229) | 33.17 | (524) | 32.16 |
| Exercised as Tandem SARs | **(68)** | **28.18** | (279) | 27.28 | (346) | 26.80 |
| Outstanding at end of year(1) | **21,349** | **$ 43.15** | 20,988 | $ 39.14 | 22,889 | $ 33.90 |
| Exercisable at end of year | **12,422** | **$ 39.84** | 12,290 | $ 36.10 | 15,404 | $ 30.40 |
| Available for grant | **23,202** | | 11,363 | | 14,808 | |

| As at October 31, 2011 | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| 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 |
| $24.40 to $27.435 | 2,446 | 0.70 | $ 24.53 | 2,446 | $ 24.53 |
| $31.45 to $46.02 | 7,782 | 5.13 | $ 36.71 | 5,670 | $ 37.76 |
| $47.39 to $52.00 | 5,620 | 7.13 | $ 49.11 | 2,731 | $ 50.54 |
| $52.57 to $55.63 | 5,501 | 7.96 | $ 54.46 | 1,575 | $ 52.57 |
| | 21,349 | 5.87 | $ 43.15 | 12,422 | $ 39.84 |

(1) Included are 14,163,016 (2010 – 16,382,636; 2009 – 19,086,780) options with Tandem SAR features and 7,185,705 of options (without the Tandem SAR feature).

As part of the acquisition, DundeeWealth share options were converted to 1,293,308 options based on the Bank's common shares on February 1, 2011. As at October 31, 2011, 1,057,349 options are outstanding at a weighted average exercise price of $48.14. From February 1, 2011 to October 31, 2011, 235,959 of these options were exercised at a weighted average exercise price of $25.36. These options expire between December 16, 2011 and January 20, 2021. No share option awards have been granted under this plan since February 1, 2011.

## (b) Employee share ownership plans

Qualifying employees can generally contribute up to a specified percentage of salary towards the purchase of common shares of the Bank or deposits with the Bank. In general, the Bank matches 50% of qualifying contributions, up to a maximum dollar amount, which is expensed in salaries and employee benefits. During 2011, the Bank's contributions totalled $30 million (2010 – $29 million; 2009 – $30 million). Contributions, which are used by the plan trustee to purchase common shares in the open market, do not result in a subsequent expense to the Bank from share price appreciation.

## (c) Other stock-based compensation plans

All other liability-classified stock-based compensation plans use notional units that are valued based on the Bank's common share price on the TSX. These units, with the exception of Stock Appreciation Rights (SARs), accumulate dividend equivalents in the form of additional units based on the dividends paid on the Bank's common shares. Fluctuations in the Bank's share price change the value of the units, which affects the Bank's stock-based compensation expense. As described below, the value of a portion of the Performance Share Unit notional units also varies based on Bank performance. Upon exercise or redemption, payments are made to the employees with a corresponding reduction in the accrued liability. In 2011, an aggregate expense of $204 million (2010 – $180 million expense; 2009 – $79 million expense) was recorded in salaries and employee benefits in the Consolidated Statement of Income for changes in the amount of the Bank's liability for these units. This expense includes losses arising from derivatives used to manage the volatility of stock-based compensation of $25 million (2010 – gains of $274 million; 2009 – gains of $154 million). Details of these plans are as follows:

### Stock Appreciation Rights (SARs), including Tandem SARs

The SARs include Tandem SARs, as described above, as well as stand-alone SARs which are granted instead of stock options to selected employees in countries where local laws may restrict the Bank from issuing shares. SARs have vesting and exercise terms and conditions similar to the employee stock options. The cost of SARs is recognized on a graded vesting basis except where the employee is eligible to retire prior to the vesting date, in which case the cost is recognized between the grant date and the date the employee is eligible to retire. When a SAR is exercised, the Bank pays the appreciation amount in cash equal to the rise in the market price of the Bank's common shares since the grant date. During fiscal 2011, 385,736 SARs were granted (2010 – 425,180; 2009 – 4,938,692) and as at October 31, 2011, 16,760,924, SARs were outstanding (2010 – 19,636,734; 2009 – 23,467,755), of which 16,423,232 SARs were vested (2010 – 18,811,216; 2009 – 21,537,430).

### Deferred Stock Unit Plan (DSU)

Under the DSU Plan, eligible senior executives may elect to receive all or a portion of their cash bonus under the Annual Incentive Plan (which is expensed for the year awarded in salaries and employee benefits in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only when an executive ceases to be a Bank employee and must be redeemed by December 31 of the year following that event. As at October 31, 2011, there were 1,764,974 units outstanding (2010 – 1,655,197; 2009 – 1,591,426).

### Directors' Deferred Stock Unit Plan (DDSU)

Under the DDSU Plan, non-officer directors of the Bank may elect to receive all or a portion of their fee for that fiscal year (which is expensed by the Bank in other expenses in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only following resignation or retirement and must be redeemed by December 31 of the year following that event. As at October 31, 2011, there were 360,216 units outstanding (2010 – 350,029; 2009 – 324,066).

### Restricted Share Unit Plan (RSU)

Under the RSU Plan, selected employees receive an award of restricted share units which vest at the end of three years, at which time the units

are paid, in cash, to the employee. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. As at October 31, 2011, there were 2,107,385 units (2010 – 2,073,623; 2009 – 1,983,701) awarded and outstanding of which 1,621,118 were vested.

### Performance Share Unit Plan (PSU)

Eligible executives receive an award of performance share units that vest at the end of three years. PSU awards granted after November 1, 2009 are subject to performance criteria measured over a three-year period. For prior PSU awards, only a portion of the award was subject to performance criteria. The three-year performance measures include return on equity compared to target and total shareholder return relative to a comparator group selected prior to the granting of the award. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. This expense varies based on performance compared to the performance measures. Upon vesting, the units are paid, in cash, to the employee. As at October 31, 2011, there were 7,822,434 units (2010 – 6,001,672; 2009 – 4,062,895) awarded and outstanding [including 7,385,718 (2010 – 4,988,748; 2009 – 2,345,134) subject to performance criteria] of which 6,085,003 were vested. The above units include PSUs awarded to Scotia Capital employees described below.

### Scotia Capital Deferred Payment Plan

Under the Scotia Capital Incentive Plan, a portion of the bonus awarded to certain employees (which is accrued and expensed in the year to which it relates) is allocated in the form of DPP units, with the remainder paid out in cash. These units are subsequently paid, in cash, to qualifying employees over each of the following three years. Other eligible employees may be allocated PSUs or stock options/SARs (which are expensed as described above) instead of DPP units.

DPP units awarded after November 1, 2009 are subject to performance criteria measured over the units' vesting period. The performance measures include the same measures as described above for the PSU awards as well as an assessment of the annual performance of the Bank and Scotia Capital.

Changes in the value of the units, which arise from fluctuations in the market price of the Bank's common shares as well as based on performance compared to the performance measures, are expensed in the same manner as the Bank's other stock-based compensation plans in salaries and employee benefits expense in the Consolidated Statement of Income.

### Share Bonus and Retention Award Plans

Prior to the acquisition of DundeeWealth on February 1, 2011, DundeeWealth had established share bonus plans for eligible participants. The share bonus plans permitted common shares of DundeeWealth to be issued from treasury or purchased in the market. At the time of the acquisition of DundeeWealth, the share bonus awards that were granted but not yet vested were converted into 377,516 Bank of Nova Scotia common shares to be issued from treasury. As at October 31, 2011, there were 257,278 share bonus awards outstanding from the DundeeWealth share bonus plans. From February 1, 2011 to October 31, 2011, 119,806 common shares were issued from treasury for these plans and 432 awards were cancelled. Share bonus awards have not been granted under these plans since February 1, 2011.

Prior to the acquisition of DundeeWealth, DundeeWealth had established share-based retention award plans whereby DundeeWealth purchased shares in the market to be held in trust for the benefit of certain employees and portfolio managers. At the time of the acquisition of DundeeWealth, the retention awards were converted to Bank common shares, other securities and cash. As of October 31, 2011, there were 506,807 Bank common shares held in trust for these plans. Retention awards have not been granted under these plans since February 1, 2011.

The share bonus and retention award plans are considered to be equity-classified awards.

## 19 Corporate income taxes

Corporate income taxes recorded in the Bank's consolidated financial statements for the years ended October 31 are as follows:

### (a) Components of income tax provision

| For the year ended October 31 ($ millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Provision for income taxes in the Consolidated Statement of Income: | | | |
| Current income taxes: | | | |
| Domestic: | | | |
| Federal | **$ 216** | $ 118 | $ (155) |
| Provincial | **263** | 223 | 91 |
| Foreign | **730** | 847 | 1,035 |
| | **1,209** | 1,188 | 971 |
| Future income taxes: | | | |
| Domestic: | | | |
| Federal | **127** | 313 | 85 |
| Provincial | **37** | 87 | 37 |
| Foreign | **37** | 157 | 40 |
| | **201** | 557 | 162 |
| Total provision for income taxes in the Consolidated Statement of Income | **$1,410** | $ 1,745 | $ 1,133 |
| Provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity: | | | |
| Reported in Other Comprehensive Income | **29** | 244 | 708 |
| Cumulative effect of adopting new accounting policy[1] | **–** | – | 323 |
| Share issuance costs | **–** | (2) | (6) |
| Total provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity | **29** | 242 | 1,025 |
| Total provision for (recovery) of income taxes | **$1,439** | $ 1,987 | $ 2,158 |

(1) The new accounting policy, adopted in 2009, related to the classification and impairment of financial assets. Refer to changes in accounting standards prior to November 1, 2009, in Note 1.

### (b) Reconciliation to statutory rate

Income taxes in the Consolidated Statement of Income vary from the amounts that would be computed by applying the composite federal and provincial statutory income tax rate for the following reasons:

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| For the year ended October 31 ($ millions) | Amount | Percent of pre-tax income | Amount | Percent of pre-tax income | Amount | Percent of pre-tax income |
| Income taxes at statutory rate | **$ 1,872** | **28.0%** | $ 1,842 | 30.3% | $ 1,516 | 31.6% |
| Increase (decrease) in income taxes resulting from: | | | | | | |
| Lower average tax rate applicable to subsidiaries and foreign branches | **(257)** | **(3.8)** | (72) | (1.2) | (325) | (6.8) |
| Tax-exempt income from securities | **(309)** | **(4.6)** | (152) | (2.5) | (168) | (3.5) |
| Future income tax effect of substantively enacted tax rate changes | **54** | **0.8** | 105 | 1.7 | 120 | 2.5 |
| Other, net[1] | **50** | **0.7** | 22 | 0.4 | (10) | (0.2) |
| Total income taxes and effective tax rate | **$ 1,410** | **21.1%** | $ 1,745 | 28.7% | $ 1,133 | 23.6% |

(1) Includes the benefit from the non-taxable gain related to the DundeeWealth acquisition and the valuation allowance claimed with respect to the future tax asset related to a loss on disposal of subsidiary operations in a prior year.

## (c) Future income taxes

The tax-effected temporary differences which result in future income tax assets and (liabilities) are as follows:

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| Loss carryforwards[1] | **$1,114** | $1,242 |
| Allowance for credit losses[2] | **566** | 686 |
| Deferred compensation | **267** | 305 |
| Deferred income | **139** | 187 |
| Premises and equipment[3] | **29** | (65) |
| Intangible assets[3] | **(802)** | (135) |
| Pension fund | **(316)** | (304) |
| Securities | **(203)** | (339) |
| Other[3] | **198** | 198 |
| Net future income taxes[4] | **$ 992** | $1,775 |

(1) Includes a gross future tax asset of $287 as at October 31, 2011 (2010 – $347) relating to subsidiaries' unused income tax losses. This future tax asset has been reduced by a valuation allowance of $19 (2010 – $1), resulting in a net future tax asset of $268 (2010 – $346).
(2) As at October 31, 2011, the future income tax asset related to the allowance for credit losses has been reduced by a valuation allowance of $316 (2010 – $316) relating to a subsidiary's unused tax deductions arising from previous years' allowance for credit losses.
(3) Prior period information has been reclassified to conform with current period presentation.
(4) Net future income taxes of $992 (2010 – $1,775) are represented by future income tax assets of $1,496 (2010 – $2,219), net of future income tax liabilities of $504 (2010 – $444).

Earnings of certain international subsidiaries are subject to tax only upon their repatriation to Canada. As repatriation is not currently planned in the foreseeable future, the Bank has not recognized a future income tax liability. If all international subsidiaries' unremitted earnings were repatriated, taxes that would be payable as at October 31, 2011, are estimated to be $935 million (October 31, 2010 – $907 million).

## 20 Employee future benefits

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

| | Pension plans | | | Other benefit plans | | |
|---|---|---|---|---|---|---|
| For the year ended October 31 ($ millions) | **2011** | 2010 | 2009 | **2011** | 2010 | 2009 |
| **Change in benefit obligation** | | | | | | |
| Benefit obligation at beginning of year | **$ 5,255** | $ 4,367 | $ 4,414 | **$ 1,225** | $ 1,038 | $ 1,040 |
| Cost of benefits earned in the year | **162** | 118 | 124 | **49** | 41 | 39 |
| Interest cost on benefit obligation | **302** | 306 | 298 | **74** | 72 | 71 |
| Employee contributions | **14** | 13 | 13 | **–** | – | – |
| Benefits paid | **(427)** | (274) | (278) | **(56)** | (55) | (53) |
| Actuarial loss (gain) | **(117)** | 731 | (47) | **32** | 152 | (21) |
| Non-routine events[2] | **(9)** | 19 | (61) | **–** | (19) | – |
| Foreign exchange | **(30)** | (25) | (96) | **(22)** | (4) | (38) |
| Benefit obligation at end of year[4] | **$ 5,150** | $ 5,255 | $ 4,367 | **$ 1,302** | $ 1,225 | $ 1,038 |
| **Change in fair value of assets** | | | | | | |
| Fair value of assets at beginning of year | **$ 5,078** | $ 4,830 | $ 5,537 | **$ 277** | $ 245 | $ 256 |
| Actual return on assets | **426** | 363 | (348) | **23** | 28 | 4 |
| Employer contributions | **129** | 172 | 141 | **62** | 58 | 60 |
| Employee contributions | **14** | 13 | 13 | **–** | – | – |
| Benefits paid | **(427)** | (274) | (278) | **(56)** | (55) | (53) |
| Non-routine events[2] | **(95)** | – | (90) | **–** | – | – |
| Foreign exchange | **(32)** | (26) | (145) | **(19)** | 1 | (22) |
| Fair value of assets at end of year[3][4] | **$ 5,093** | $ 5,078 | $ 4,830 | **$ 287** | $ 277 | $ 245 |
| **Funded status** | | | | | | |
| Excess (deficit) of fair value of assets over benefit obligation at end of year[4] | **$ (57)** | $ (177) | $ 463 | **$ (1,015)** | $ (948) | $ (793) |
| Unrecognized net actuarial loss | **1,423** | 1,758 | 1,003 | **309** | 296 | 168 |
| Unrecognized past service costs | **125** | 104 | 96 | **(3)** | (3) | (4) |
| Unrecognized transitional obligation (asset) | **(122)** | (178) | (216) | **104** | 122 | 141 |
| Valuation allowance | **–** | (139) | (129) | **–** | – | – |
| Employer contributions after measurement date | **30** | 9 | 20 | **12** | 11 | 11 |
| Net prepaid (accrued) benefit expense at end of year | **$ 1,399** | $ 1,377 | $ 1,237 | **$ (593)** | $ (522) | $ (477) |
| Recorded in: | | | | | | |
| Other assets in the Bank's Consolidated Balance Sheet | **$ 1,645** | $ 1,612 | $ 1,463 | **$ 34** | $ 31 | $ 23 |
| Other liabilities in the Bank's Consolidated Balance Sheet | **(246)** | (235) | (226) | **(627)** | (553) | (500) |
| Net prepaid (accrued) benefit expense at end of year | **$ 1,399** | $ 1,377 | $ 1,237 | **$ (593)** | $ (522) | $ (477) |
| **Annual benefit expense** | | | | | | |
| Cost of benefits earned in the year | **$ 162** | $ 118 | $ 124 | **$ 49** | $ 41 | $ 39 |
| Interest cost on benefit obligation | **302** | 306 | 298 | **74** | 72 | 71 |
| Actual return on assets | **(426)** | (363) | 348 | **(23)** | (28) | (4) |
| Actuarial loss (gain) on benefit obligation | **(117)** | 731 | (47) | **32** | 152 | (21) |
| Amount of curtailment (gain) loss recognized | **–** | – | – | **–** | (8) | – |
| Amount of settlement (gain) loss recognized | **52** | – | 12 | **–** | – | – |
| Special termination benefits[2] | **48** | – | 31 | **–** | – | – |
| Non-routine events[2] | **38** | 19 | – | **–** | (19) | – |
| Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs | **59** | 811 | 766 | **132** | 210 | 85 |
| Adjustments to recognize the long-term nature of employee future benefit costs: | | | | | | |
| Difference between expected return and actual return on plan assets | **67** | (36) | (753) | **1** | 7 | (17) |
| Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation | **192** | (726) | 49 | **(19)** | (146) | 28 |
| Difference between amortization of non-routine events and actual non-routine events | **(26)** | (8) | 10 | **–** | 19 | – |
| Amortization to recognize transitional obligation (asset) | **(32)** | (37) | (39) | **18** | 18 | 18 |
| | **201** | (807) | (733) | **–** | (102) | 29 |
| Change in valuation allowance provided against prepaid benefit expense | **(139)** | 10 | (50) | **–** | – | – |
| Benefit expense (income) recognized, excluding defined contribution benefit expense | **121** | 14 | (17) | **132** | 108 | 114 |
| Defined contribution benefit expense recognized | **7** | 6 | 5 | **–** | – | – |
| **Total benefit expense recognized** | **$ 128** | $ 20 | $ (12) | **$ 132** | $ 108 | $ 114 |

(1) Other plans operated by certain subsidiaries of the Bank are not considered material and are not included in these disclosures.
(2) Non-routine events include plan amendments, acquisitions, divestitures, transfers, etc. The special termination benefits are also considered a non-routine event associated with additional benefits paid upon the termination of a pension plan.
(3) The fair value of pension plan assets invested in securities of the Bank totalled $428 (2010 – $429; 2009 – $426).
(4) The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefits plan.

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

| For the year ended October 31 ($ millions) | Pension plans | | | Other benefit plans | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** | 2010 | 2009 |
| Benefit obligation(1) | **$ 886** | $ 4,841 | $ 774 | **$ 1,302** | $ 1,225 | $ 890 |
| Fair value of assets | **509** | 4,349 | 446 | **287** | 277 | 96 |
| Deficit of fair value of assets over benefit obligation | **$ (377)** | $ (492) | $ (328) | **$ (1,015)** | $ (948) | $ (794) |

(1) Includes the benefit obligation of $286 at the end of 2011 (2010 – $280; 2009 – $258) related to supplemental unfunded pension arrangements

## Key weighted-average assumptions (%)(1)

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

| For the year ended October 31 | Pension plans | | | Other benefit plans | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** | 2010 | 2009 |
| To determine benefit obligation at end of year | | | | | | |
| Discount rate | **6.00%** | 5.90% | 7.05% | **5.80%** | 6.00% | 6.90% |
| Rate of increase in future compensation(2) | **3.30%** | 3.60% | 3.90% | **1.20%** | 1.30% | 1.30% |
| To determine benefit expense (income) for the year | | | | | | |
| Discount rate | **5.90%** | 7.05% | 6.70% | **6.00%** | 6.90% | 6.90% |
| Assumed long-term rate of return on assets | **6.70%** | 7.50% | 7.25% | **7.90%** | 8.50% | 8.70% |
| Rate of increase in future compensation(2) | **3.60%** | 3.90% | 3.90% | **1.30%** | 1.30% | 1.50% |
| Health care cost trend rates at end of year | | | | | | |
| Initial rate | **n/a** | n/a | n/a | **6.30%** | 6.70% | 7.00% |
| Ultimate rate | **n/a** | n/a | n/a | **4.20%** | 4.50% | 4.70% |
| Year ultimate rate reached | **n/a** | n/a | n/a | **2029** | 2029 | 2029 |

(1) Includes international plans which generally have higher rates than Canadian plans. The discount rate used to determine the 2011 benefit expense for all Canadian pension plans was 5.7% and other benefit plans was 5.8% (2010 – 6.8%; 2009 – 6.4%). The discount rate used for the 2011 end of year benefit obligation was 5.8% for the main pension plan, 5.6% for the other Canadian pension plans and 5.4% for all Canadian other benefit plans, respectively (2010 – 5.7% for all Canadian pension plans; 5.8% for all Canadian other benefit plans; 2009 – 6.8%) and the assumed long-term rate of return on assets for all Canadian pension plans was 7.0% (2010 – 7.0%; 2009 – 7.0%).

(2) The weighted-average rates of increase in future compensation shown for other benefit plans do not include Canadian flexible post-retirement benefits plans established in fiscal 2005, as they are not impacted by future compensation increases.

## Sensitivity analysis

| For the year ended October 31, 2011 ($ millions) | Pension plans | | Other benefit plans | |
|---|---|---|---|---|
| | Benefit obligation | Benefit expense | Benefit obligation | Benefit expense |
| Impact of 1% decrease in discount rate | $ 827 | $ 95 | $ 195 | $ 15 |
| Impact of 1% decrease in assumed long-term rate of return on assets | n/a | 50 | n/a | 3 |
| Impact of 0.25% increase in rate of increase in future compensation | 58 | 12 | – | – |
| Impact of 1% increase in health care cost trend rate | n/a | n/a | 155 | 27 |
| Impact of 1% decrease in health care cost trend rate | n/a | n/a | (125) | (21) |

## Assets

The Bank's principal pension plans' assets are generally invested with the long-term objective of maximizing overall expected returns, at an acceptable level of risk relative to the benefit obligation. A key factor in managing long-term investment risk is asset mix. Investing the pension assets in different asset classes and geographic regions helps to mitigate risk and to minimize the impact of declines in any single asset class, particular region or type of investment. Within each asset class, investment management firms – including related-party managers – are hired and assigned specific mandates.

Pension plan asset mix guidelines are set for the long term, and are documented in each plan's investment policy. Asset mix policy typically also reflects the nature of the plan's benefit obligation. Legislation places certain restrictions on asset mix – for example, there are usually limits on concentration in any one investment. Other concentration and quality limits are also set forth in the investment policies. The use of derivatives is generally prohibited without specific authorization; currently, the main use of derivatives is to hedge currency fluctuations associated with US equity holdings in the Canadian pension funds. Asset mix guidelines are reviewed at least once each year, and adjusted, where appropriate, based on market conditions and opportunities. However, large asset class shifts are rare, and typically reflect a change in the pension plan's situation (e.g. a plan termination). Actual asset mix is reviewed regularly, and rebalancing – as needed – back to the target asset mix is considered, generally, twice each year.

The Bank's other benefit plans are generally not funded; the relatively small assets for these other benefit plans are mostly related to programs in Mexico.

The Bank's principal plans' weighted-average actual and target asset allocations at the measurement date, by asset category, are as follows:

| | Pension plans | | | | Other benefit plans | | | |
|---|---|---|---|---|---|---|---|---|
| Asset category % | **Target 2011** | **Actual 2011** | Actual 2010 | Actual 2009 | **Target 2011** | **Actual 2011** | Actual 2010 | Actual 2009 |
| Equity investments | **68%** | **66%** | 64% | 63% | **40%** | **40%** | 40% | 36% |
| Fixed income investments | **31%** | **34%** | 36% | 34% | **60%** | **60%** | 60% | 64% |
| Other | **1%** | **–** | – | 3% | **–** | **–** | – | – |
| Total | **100%** | **100%** | 100% | 100% | **100%** | **100%** | 100% | 100% |

### Actuarial valuations

Actuarial valuations for the Bank's principal pension plans are generally required every three years. The most recent actuarial valuation of the Bank's main pension plan was conducted as of November 1, 2008, and the date of the next required valuation is November 1, 2011 (this plan accounts for 75% of principal pension plans' benefit obligation and 78% of principal pension plans' fair value of assets). Actuarial valuations for the Bank's principal other benefit plans are generally carried out every two to three years, with the most recent valuation completed as of July 31, 2011 for the other post-retirement benefits and July 31, 2009 for post-employment benefits. The next actuarial valuations are currently scheduled in fiscal year 2014 for post-retirement benefits and fiscal year 2012 for post-employment benefits.

### Cash payments and contributions

In fiscal year 2011, the Bank made net cash payments of $150 million (2010 – $161 million; 2009 – $154 million) to fund the principal defined benefit pension plans, including the payment of benefits to beneficiaries under the unfunded pension arrangements. The Bank also made cash payments of $63 million (2010 – $58 million; 2009 – $60 million) during the year to the principal other benefit plans, primarily in respect of benefit payments to beneficiaries under these plans. The Bank also made cash payments of $7 million (2010 – $6 million; 2009 – $5 million) to the principal defined contribution pension plans.

## 21 Earnings per common share

| For the year ended October 31 ($ millions) | **2011** | 2010 | 2009 |
|---|---|---|---|
| **Basic earnings per common share** | | | |
| Net income attributable to common shareholders | **$ 4,959** | $4,038 | $3,361 |
| Average number of common shares outstanding (millions) | **1,072** | 1,032 | 1,013 |
| Basic earnings per common share[1] | **$ 4.62** | $ 3.91 | $ 3.32 |
| **Diluted earnings per common share** | | | |
| Net income attributable to common shareholders | **$ 4,959** | $4,038 | $3,361 |
| Average number of common shares outstanding (millions) | **1,072** | 1,032 | 1,013 |
| Stock options potentially exercisable (millions)[2] | **2** | 2 | 3 |
| Average number of diluted common shares outstanding (millions)[3] | **1,074** | 1,034 | 1,016 |
| Diluted earnings per common share[1] | **$ 4.62** | $ 3.91 | $ 3.31 |

(1) Earnings per share calculations are based on full dollar and share amounts.
(2) Reflects the potential dilutive effect of stock options granted under the Bank's Stock Option Plans as determined under the treasury stock method. Excludes options with Tandem SAR features as these options are expensed and recorded as liabilities. All other stock options are included in the computation.
(3) Certain convertible instruments have not been included in the calculation since the Bank has the right to redeem them for cash prior to conversion date.

## 22 Related party transactions

The Bank provides regular banking services to its associated and other related corporations in the ordinary course of business. These services are on terms similar to those offered to non-related parties. Loans granted to directors and officers in Canada are at market terms and conditions. Prior to March 1, 2001, the Bank granted loans to officers and employees at reduced rates in Canada. The loans granted prior to March 1, 2001, are grandfathered until maturity. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers of those units at reduced rates or on preferred terms. Loans to executive officers of the Bank totalled $11.0 million as at October 31, 2011 (2010 – $7.3 million), and loans to directors $0.3 million (2010 – $0.3 million). Directors can use some or all of their fees to buy common shares at market rates through the Directors' Share Purchase Plan. Non-officer directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in 2004, the Bank no longer grants stock options to non-officer directors. Refer to Note 18, Stock-based compensation for further details of these plans. The Bank may also provide banking services to companies affiliated with the Bank's directors. These commercial arrangements are conducted at the same market terms and conditions provided to all customers and follow the normal credit review processes within the Bank. The Bank's committed credit exposure to companies controlled by directors totalled $4.4 million as at October 31, 2011 (2010 – $4.6 million), while actual utilized amounts were $2.0 million (2010 – $2.8 million).

## 23 Segmented results of operations

Scotiabank is a diversified financial services institution that provides a wide range of financial products and services to retail, commercial and corporate customers around the world. Effective November 1, 2010, the Bank began reporting under its new business structure that includes the Global Wealth Management business segment. The Bank's businesses were regrouped into four main operating segments: Canadian Banking, International Banking, Global Wealth Management and Scotia Capital.

Canadian Banking provides a comprehensive array of retail and commercial banking services through branch and electronic delivery channels, to individuals and small to medium-sized businesses in Canada. The retail services include consumer and mortgage lending, credit and debit card services, savings, chequing and retirement products, and transaction services. In addition to credit, commercial clients are provided with deposit and cash management services.

International Banking provides retail and commercial banking services through branches, subsidiaries and foreign affiliates. The products, services and channels offered are generally the same as those in Canadian Banking.

Global Wealth Management is comprised of the Bank's global wealth management and insurance businesses as well as global transaction banking. Wealth management businesses include Global Asset Management, responsible for global investment manufacturing, and Global Wealth Distribution, responsible for global client-facing businesses including private client and institutional client services, full service brokerage, online brokerage, offshore brokerage and the independent advisor channel. Insurance products offered in Canada include creditor, life and health, home and auto, and travel insurance. Internationally, the Bank offers credit-related life, health and property insurance, as well as other products, not related to banking credit, including life, health, property (home, auto and other property), and ATM fraud insurance.

Scotia Capital is an integrated corporate and investment bank which services the credit, capital market and risk management needs of the Bank's global relationships with large corporations, financial institutions and governments. The services provided include credit and related products, debt and equity underwriting, foreign exchange, derivative products, precious metals products and financial advisory services. Also, it conducts trading activities for its own account and provides short-term Canadian dollar funding for the Bank.

The Other category represents smaller operating segments, including Group Treasury and other corporate items, which are not allocated to an operating segment.

The historical comparative segment financial information has been restated to reflect this realignment. The restated historical segment financial information of Canadian Banking, International Banking and Other did not impact the Bank's previously reported consolidated financial information.

The results of these business segments are based upon the internal financial reporting systems of the Bank. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. The only notable accounting measurement difference is the grossing up of tax-exempt net interest income to an equivalent before-tax basis for those affected segments. This change in measurement enables comparison of net interest income arising from taxable and tax-exempt sources.

Due to the complexity of the Bank, various estimates and allocation methodologies are used in the preparation of the business segment financial information. The assets and liabilities are transfer-priced at wholesale market rates, and corporate expenses are allocated to each segment based on utilization. As well, capital is apportioned to the business segments on a risk-based methodology. Transactions between segments are recorded within segment results as if conducted with a third party and are eliminated on consolidation.

For the year ended October 31, 2011 ($ millions)

| Taxable equivalent basis | Canadian Banking | International Banking | Global Wealth Management | Scotia Capital | Other[1] | **Total** |
|---|---|---|---|---|---|---|
| Net interest income[2] | $ 4,889 | $ 3,988 | $ 345 | $ 1,066 | $(1,018) | **$ 9,270** |
| Provision for credit losses | 590 | 485 | 2 | 29 | (60) | **1,046** |
| Other income | 1,351 | 1,420 | 2,973 | 1,894 | 380 | **8,018** |
| Net interest and other income | 5,650 | 4,923 | 3,316 | 2,931 | (578) | **16,242** |
| Depreciation and amortization | 159 | 146 | 50 | 51 | 5 | **411** |
| Other non-interest expenses | 2,910 | 2,910 | 1,840 | 1,358 | 135 | **9,153** |
| Income before the undernoted: | 2,581 | 1,867 | 1,426 | 1,522 | (718) | **6,678** |
| Provision for income taxes | 719 | 382 | 208 | 338 | (237) | **1,410** |
| Net income[3] | $ 1,862 | $ 1,485 | $ 1,218 | $ 1,184 | $ (481) | **$ 5,268** |
| Net income attributable to non-controlling interests[3] | 4 | 60 | 29 | – | – | **93** |
| Net income attributable to equity holders of the Bank[3] | 1,858 | 1,425 | 1,189 | 1,184 | (481) | **5,175** |
| Total average assets ($ billions) | $ 210 | $ 92 | $ 9 | $ 188 | $ 70 | **$ 569** |

For the year ended October 31, 2010 ($ millions)

| Taxable equivalent basis | Canadian Banking | International Banking | Global Wealth Management | Scotia Capital | Other[1] | Total |
|---|---|---|---|---|---|---|
| Net interest income[2] | $ 4,919 | $ 3,616 | $ 339 | $ 1,093 | $(1,346) | $ 8,621 |
| Provision for credit losses | 705 | 616 | 1 | (43) | (40) | 1,239 |
| Other income | 1,302 | 1,323 | 1,864 | 2,086 | 309 | 6,884 |
| Net interest and other income | 5,516 | 4,323 | 2,202 | 3,222 | (997) | 14,266 |
| Depreciation and amortization | 146 | 129 | 21 | 35 | 3 | 334 |
| Other non-interest expenses | 2,828 | 2,533 | 1,200 | 1,160 | 127 | 7,848 |
| Income before the undernoted: | 2,542 | 1,661 | 981 | 2,027 | (1,127) | 6,084 |
| Provision for income taxes | 772 | 504 | 165 | 677 | (373) | 1,745 |
| Net income[3] | $ 1,770 | $ 1,157 | $ 816 | $ 1,350 | $ (754) | $ 4,339 |
| Net income attributable to non-controlling interests[3] | 1 | 68 | 31 | – | – | 100 |
| Net income attributable to equity holders of the Bank[3] | 1,769 | 1,089 | 785 | 1,350 | (754) | 4,239 |
| Total average assets ($ billions) | $ 197 | $ 85 | $ 9 | $ 164 | $ 61 | $ 516 |

For the year ended October 31, 2009 ($ millions)

| Taxable equivalent basis | Canadian Banking | International Banking | Global Wealth Management | Scotia Capital | Other[1] | Total |
|---|---|---|---|---|---|---|
| Net interest income[2] | $ 4,537 | $ 3,585 | $ 367 | $ 1,427 | $(1,588) | $ 8,328 |
| Provision for credit losses | 700 | 576 | 3 | 338 | 127 | 1,744 |
| Other income | 1,203 | 1,182 | 1,522 | 2,138 | 84 | 6,129 |
| Net interest and other income | 5,040 | 4,191 | 1,886 | 3,227 | (1,631) | 12,713 |
| Depreciation and amortization | 152 | 126 | 17 | 32 | 3 | 330 |
| Other non-interest expenses | 2,740 | 2,569 | 1,113 | 1,040 | 127 | 7,589 |
| Income before the undernoted: | 2,148 | 1,496 | 756 | 2,155 | (1,761) | 4,794 |
| Provision for income taxes | 679 | 256 | 131 | 704 | (637) | 1,133 |
| Net income[3] | $ 1,469 | $ 1,240 | $ 625 | $ 1,451 | $(1,124) | $ 3,661 |
| Net income attributable to non-controlling interests[3] | – | 78 | 36 | – | – | 114 |
| Net income attributable to equity holders of the Bank[3] | 1,469 | 1,162 | 589 | 1,451 | (1,124) | 3,547 |
| Total average assets ($ billions) | $ 186 | $ 87 | $ 9 | $ 183 | $ 48 | $ 513 |

(1) Includes revenues from all other smaller operating segments of $140 in 2011 (2010 – ($169); 2009 – ($638), and net income/(loss) of $43 in 2011 (2010 – ($152); 2009 – ($467). As well, includes corporate adjustments such as the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes of $287 in 2011 (2010 – $286; 2009 – $288), changes in the general allowance, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

(2) Commencing November 1, 2008, the impact of including a liquidity premium charge in the cost of funds allocated to the business segments was a reduction in the net interest income of the four major segments of $270 in 2011, $239 in 2010 and $331 in 2009, which were offset by a reduction in the net interest expense of the Other segment.

(3) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

## Geographical segmentation[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, 2011 ($ millions) | Canada | United States | Mexico | Other International | **Total** |
|---|---|---|---|---|---|
| Net interest income | $ 5,313 | $ 421 | $ 867 | $ 3,385 | **$ 9,986** |
| Provision for credit losses | 619 | (13) | 137 | 363 | **1,106** |
| Other income | 4,762 | 495 | 452 | 2,079 | **7,788** |
| Non-interest expenses | 5,428 | 408 | 858 | 2,810 | **9,504** |
| Provision for income taxes | 713 | 210 | 73 | 380 | **1,376** |
| | $ 3,315 | $ 311 | $ 251 | $ 1,911 | **$ 5,788** |
| Corporate adjustments | | | | | **(520)** |
| Net income[2] | | | | | **$ 5,268** |
| Net income attributable to non-controlling interests[2] | | | | | **93** |
| Net income attributable to equity holders of the Bank[2] | | | | | **5,175** |
| Total average assets ($ billions) | $ 354 | $ 59 | $ 19 | $ 122 | **$ 554** |
| Corporate adjustments | | | | | **15** |
| Total average assets, including corporate adjustments | | | | | **$ 569** |

| For the year ended October 31, 2010 ($ millions) | Canada | United States | Mexico | Other International | Total |
|---|---|---|---|---|---|
| Net interest income | $ 4,960 | $ 458 | $ 801 | $ 3,144 | $ 9,363 |
| Provision for credit losses | 709 | (54) | 168 | 456 | 1,279 |
| Other income | 3,770 | 609 | 438 | 1,912 | 6,729 |
| Non-interest expenses | 4,653 | 327 | 778 | 2,379 | 8,137 |
| Provision for income taxes | 767 | 330 | 76 | 558 | 1,731 |
| | $ 2,601 | $ 464 | $ 217 | $ 1,663 | $ 4,945 |
| Corporate adjustments | | | | | (606) |
| Net income[2] | | | | | $ 4,339 |
| Net income attributable to non-controlling interests[2] | | | | | 100 |
| Net income attributable to equityholders of the Bank[2] | | | | | 4,239 |
| Total average assets ($ billions) | $ 337 | $ 47 | $ 18 | $ 105 | $ 507 |
| Corporate adjustments | | | | | 9 |
| Total average assets, including corporate adjustments | | | | | $ 516 |

| For the year ended October 31, 2009 ($ millions) | Canada | United States | Mexico | Other International | Total |
|---|---|---|---|---|---|
| Net interest income | $ 4,482 | $ 641 | $ 821 | $ 3,332 | $ 9,276 |
| Provision for credit losses | 744 | 296 | 185 | 392 | 1,617 |
| Other income | 3,211 | 452 | 424 | 1,673 | 5,760 |
| Non-interest expenses | 4,529 | 255 | 791 | 2,317 | 7,892 |
| Provision for income taxes | 538 | 222 | 69 | 380 | 1,209 |
| | $ 1,882 | $ 320 | $ 200 | $ 1,916 | $ 4,318 |
| Corporate adjustments | | | | | (657) |
| Net income[2] | | | | | $ 3,661 |
| Net income attributable to non-controlling interests[2] | | | | | 114 |
| Net income attributable to equityholders of the Bank[2] | | | | | 3,547 |
| Total average assets ($ billions) | $ 335 | $ 44 | $ 19 | $ 109 | $ 507 |
| Corporate adjustments | | | | | 6 |
| Total average assets, including corporate adjustments | | | | | $ 513 |

(1) Revenues are attributed to countries based on where services are performed or assets are recorded.
(2) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

## 24 Guarantees, commitments and contingent liabilities

### (a) Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, index or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform in relation to its indebtedness. The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

| As at October 31 ($ millions) | 2011<br>Maximum potential amount of future payments[1] | 2010<br>Maximum potential amount of future payments[1] |
|---|---|---|
| Standby letters of credit and letters of guarantee | **$ 21,150** | $ 20,450 |
| Liquidity facilities | **9,810** | 8,377 |
| Derivative instruments | **2,537** | 3,071 |
| Indemnifications | **559** | 538 |

(1) The maximum potential amount of future payments represents those guarantees that can be quantified and excludes other guarantees that cannot be quantified. As many of these guarantees will not be drawn upon and the maximum potential amount of future payments listed above does not consider the possibility of recovery under recourse or collateral provisions, the above amounts are not indicative of future cash requirements, credit risk, or the Bank's expected losses from these arrangements.

#### Standby letters of credit and letters of guarantee

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of these guarantees does not exceed four years. The types and amounts of collateral security held by the Bank for these guarantees is generally the same as for loans. As at October 31, 2011, $8 million (2010 – $9 million) was included in other liabilities in the Consolidated Balance Sheet with respect to these guarantees.

#### Liquidity facilities

The Bank provides backstop liquidity facilities to asset-backed commercial paper conduits, administered by the Bank and by third parties. These facilities provide an alternative source of financing, in the event market disruption prevents the conduit from issuing commercial paper or, in some cases, when certain specified conditions or performance measures are not met. Generally, these facilities have a term of up to one year. Of the $9,810 million (2010 – $8,377 million) in backstop liquidity facilities provided to asset-backed commercial paper conduits, 95% (2010 – 95%) is committed liquidity for the Bank's sponsored conduits.

The Bank provides partial credit enhancements in the form of financial standby letters of credit to commercial paper conduits, administered by the Bank. As at October 31, 2011, these credit enhancements amounted to $685 million (2010 – $669 million) and are considered as liquidity facilities in the above table. The credit enhancements are provided to ensure a high investment grade credit rating is achieved for notes issued by the conduits. Generally, these facilities have a term of up to one year. No amounts have been recorded in the Consolidated Balance Sheet with respect to these facilities.

#### Derivative instruments

The Bank enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a loan or bond, if a default or other defined triggering event occurs. The Bank also enters into written option contracts under which a counterparty is granted the right, but not the obligation, to sell a specified quantity of a financial instrument at a pre-determined price on or before a set date. These written option contracts are normally referenced to interest rates, foreign exchange rates or equity prices. Typically, a corporate or government entity is the counterparty to the written credit derivative and option contracts that meet the characteristics of guarantees described above. The maximum potential amount of future payments disclosed in the table above relates to written credit derivatives, puts and floors. However, these amounts exclude certain derivatives contracts, such as written caps, as the nature of these contracts prevents quantification of the maximum potential amount of future payments. As at October 31, 2011, $215 million (2010 – $196 million) was included in derivative instrument liabilities in the Consolidated Balance Sheet with respect to these derivative instruments.

#### Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, service agreements, trademark licensing agreements, escrow arrangements, sales of assets or businesses, outsourcing agreements, leasing arrangements, clearing system arrangements, securities lending agency agreements and structured transactions. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's operations that are dependent on other parties performance, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In certain types of arrangements, the Bank may in turn obtain indemnifications from other parties to the arrangement or may have access to collateral under recourse provisions. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the Bank cannot estimate in all cases the maximum potential future amount that may be payable, nor the amount of collateral or assets available under recourse provisions that would mitigate any such payments. Historically, the Bank has not made any significant payments under these indemnities. As at October 31, 2011, $4 million (2010 – $4 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

### (b) Other indirect commitments

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

- Commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed;
- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions;
- Securities lending transactions under which the Bank, acting as principal or agent, agrees to lend securities to a borrower. These transferred securities are not derecognized. The borrower must fully collateralize the security loan at all times. The market value of the collateral is monitored relative to the amounts due under the agreements, and where necessary, additional collateral is obtained; and
- Security purchase commitments which require the Bank to fund future investments.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

The table below provides a detailed breakdown of the Bank's other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract which are not reflected on the Consolidated Balance Sheet.

| As at October 31 ($ millions) | 2011[1] | 2010[1] |
|---|---|---|
| Commercial letters of credit | **$ 1,340** | $ 1,090 |
| Commitments to extend credit[2][3] | | |
| Original term to maturity of one year or less | **41,709** | 43,089 |
| Original term to maturity of more than one year | **65,806** | 60,493 |
| Securities lending | **12,334** | 12,463 |
| Security purchase and other commitments | **574** | 436 |
| Total | **$ 121,763** | $ 117,571 |

(1) Amounts relating to variable interest entities are disclosed in Note 6.
(2) Includes liquidity facilities, net of credit enhancements.
(3) Excludes commitments which are unconditionally cancellable at the Bank's discretion at any time.

### (c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2011, for buildings and equipment under long-term, non-cancellable leases are shown below.

| For the year ($ millions) | |
|---|---|
| 2012 | $ 234 |
| 2013 | 208 |
| 2014 | 175 |
| 2015 | 144 |
| 2016 | 112 |
| 2017 and thereafter | 325 |
| Total | $ 1,198 |

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $276 million (2010 – $243 million; 2009 – $243 million). In addition, the Bank and its subsidiaries have entered into certain long-term executory contracts relating to outsourced services. The significant outsourcing arrangements have variable pricing based on utilization and are cancellable with notice.

### (d) Assets pledged and repurchase agreements

In the ordinary course of business, securities and other assets are pledged against liabilities. As well, securities are sold under repurchase agreements. Details of these activities are shown below.

| As at October 31 ($ millions) | 2011 | 2010 |
|---|---|---|
| Assets pledged to: | | |
| Bank of Canada[1] | **$ 25** | $ 25 |
| Foreign governments and central banks[1] | **6,293** | 7,044 |
| Clearing systems, payment systems and depositories[1] | **1,853** | 2,026 |
| Assets pledged in relation to exchange-traded derivative transactions | **1,293** | 561 |
| Assets pledged as collateral related to securities borrowed, and securities lent | **31,684** | 33,015 |
| Assets pledged in relation to over-the-counter derivative transactions | **4,994** | 5,267 |
| Assets pledged in relation to covered bonds (refer to Note 6a) | **11,435** | 7,584 |
| Other | **3,195** | 103 |
| Total assets pledged | **$ 60,772** | $ 55,625 |
| Obligations related to securities sold under repurchase agreements[2] | **46,062** | 40,286 |
| Total | **$ 106,834** | $ 95,911 |

(1) Includes assets pledged in order to participate in clearing and payment systems and depositories, or pledged or lodged to have access to the facilities of central banks in foreign jurisdictions.
(2) The securities sold under repurchase agreements are not derecognized.

### (e) Litigation

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

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

## 25 Financial instruments – risk management

The Bank's principal business activities result in a balance sheet that consists primarily of financial instruments. In addition, the Bank uses derivative financial instruments for both trading and asset/liability management purposes. The principal financial risks that arise from transacting financial instruments include credit risk, liquidity risk and market risk. The Bank uses comprehensive risk management techniques to monitor, evaluate and manage these risks, as follows:

- extensive risk management policies define the Bank's risk appetite, set the limits and controls within which the Bank and its subsidiaries can operate, and reflect the requirements of regulatory authorities. These policies are approved by the Bank's Board of Directors, either directly or through the Executive and Risk Committee, (the Board);
- guidelines are developed to clarify risk limits and conditions under which the Bank's risk policies are implemented;
- processes are implemented to identify, evaluate, document, report and control risk. Standards define the breadth and quality of information required to make a decision; and
- compliance with risk policies, limits and guidelines is measured, monitored and reported to ensure consistency against defined goals.

Further details on the fair value of financial instruments and how these amounts were determined are provided in Note 26. Note 28 provides details on the terms and conditions of the Bank's derivative financial instruments including notional amounts, remaining term to maturity, credit risk, and fair values of derivatives used in trading activities and asset/liability management including hedging.

### (a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. The Bank's credit risk strategy and credit risk policy are developed by its Global Risk Management (GRM) department and are reviewed and approved by the Board on an annual basis. The credit risk strategy defines target markets and risk tolerances that are developed at an all-Bank level, and then further refined at the business line level. The objectives of the credit risk strategy are to ensure that, for the Bank, including the individual business lines:

- target markets and product offerings are well defined;
- the risk parameters for new underwritings and for the portfolios as a whole are clearly specified; and
- transactions, including origination, syndication, loan sales and hedging, are managed in a manner that is consistent with the Bank's risk appetite.

The credit risk policy sets out, among other things, the credit risk rating systems and associated parameter estimates, the delegation of authority for granting credit, the calculation of the allowance for credit losses and the authorization of write-offs. It forms an integral part of enterprise-wide policies and procedures that encompass governance, risk management and control structure.

The Bank's credit risk rating systems are designed to support the determination of key credit risk parameter estimates which measure credit and transaction risk. For non-retail exposures, parameters are associated with each credit facility through the assignment of borrower and transaction ratings. Borrower risk is evaluated using methodologies that are specific to particular industry sectors and/or business lines. The risk associated with facilities of a given borrower is assessed by considering the facilities' structural and collateral-related elements. For retail portfolios, each exposure has been assigned to a particular pool (real estate secured, other retail – term lending, unsecured revolving) and within each pool to a risk grade. This process provides for a meaningful differentiation of risk, and allows for appropriate and consistent estimation of loss characteristics at the pool and risk grade level. Further details on credit risk relating to derivatives are provided in Note 28(c).

#### (i) Credit risk exposures

Credit risk exposures disclosed below are presented based on Basel II approaches utilized by the Bank. The Bank uses the advanced internal ratings based approach (AIRB) for all material Canadian, U.S. and European portfolios, and effective 2011 for a significant portion of international corporate and commercial portfolios. The remaining portfolios, including other international portfolios, are treated under the standardized approach. Under the AIRB approach, the Bank uses internal risk parameter estimates, based on historical experience, for probability of default (PD), loss given default (LGD) and exposure at default (EAD), as defined below:

- EAD: Generally represents the expected gross exposure – outstanding amount for on-balance sheet exposure and loan equivalent amount for off-balance sheet exposure.
- PD: Measures the likelihood that a borrower will default within a 1-year time horizon, expressed as a percentage.
- LGD: Measures the severity of loss on a facility in the event of a borrower's default, expressed as a percentage of exposure at default.

Under the standardized approach, credit risk is estimated using the risk weights as prescribed by the Basel II framework either based on credit assessments by external rating agencies or based on the counterparty type for non-retail exposures and product type for retail exposures. Standardized risk weights also take into account other factors such as specific provisions for defaulted exposures, eligible collateral, and loan-to-value for real estate secured retail exposures.

| As at October 31 ($ millions) | 2011 Exposure at default[1] Drawn[2] | Undrawn commitments | Other exposures[3] | **Total** | 2010 Total |
|---|---|---|---|---|---|
| By counterparty type | | | | | |
| Non-retail | | | | | |
| AIRB portfolio | | | | | |
| Corporate | $ 72,341 | $ 40,712 | $ 34,124 | **$ 147,177** | $ 111,522 |
| Bank | 22,373 | 11,153 | 22,265 | **55,791** | 43,508 |
| Sovereign[4] | 100,185 | 1,086 | 4,043 | **105,314** | 82,728 |
| | 194,899 | 52,951 | 60,432 | **308,282** | 237,758 |
| Standardized portfolio | | | | | |
| Corporate | 27,455 | 1,797 | 1,401 | **30,653** | 51,202 |
| Bank | 3,651 | 188 | 56 | **3,895** | 14,564 |
| Sovereign | 3,379 | 42 | – | **3,421** | 13,029 |
| | 34,485 | 2,027 | 1,457 | **37,969** | 78,795 |
| Total non-retail | $ 229,384 | $ 54,978 | $ 61,889 | **$ 346,251** | $ 316,553 |
| Retail | | | | | |
| AIRB portfolio | | | | | |
| Real estate secured | $ 91,735 | $ 11,780 | $ – | **$ 103,515** | $ 98,744 |
| Qualifying revolving | 14,239 | 12,195 | – | **26,434** | 19,783 |
| Other retail | 13,539 | 630 | – | **14,169** | 12,424 |
| | 119,513 | 24,605 | – | **144,118** | 130,951 |
| Standardized portfolio | | | | | |
| Real estate secured | 16,592 | – | – | **16,592** | 16,666 |
| Other retail | 13,669 | – | – | **13,669** | 12,567 |
| | 30,261 | – | – | **30,261** | 29,233 |
| Total retail | $ 149,774 | $ 24,605 | $ – | **$ 174,379** | $ 160,184 |
| Total | $ 379,158 | $ 79,583 | $ 61,889 | **$ 520,630** | $ 476,737 |
| By geography[5] | | | | | |
| Canada | $ 230,707 | $ 49,845 | $ 25,092 | **$ 305,644** | $ 280,984 |
| United States | 39,972 | 18,564 | 22,067 | **80,603** | 73,316 |
| Mexico | 11,580 | 161 | 760 | **12,501** | 12,658 |
| Other International | | | | | |
| Europe | 14,630 | 4,784 | 7,865 | **27,279** | 27,153 |
| Caribbean | 27,505 | 2,242 | 2,088 | **31,835** | 30,490 |
| Latin America (excluding Mexico) | 26,972 | 820 | 1,684 | **29,476** | 25,267 |
| All Other | 27,792 | 3,167 | 2,333 | **33,292** | 26,869 |
| Total | $ 379,158 | $ 79,583 | $ 61,889 | **$ 520,630** | $ 476,737 |

(1) After credit risk mitigation, Basel II exposures excludes available-for-sale equity securities and other assets.
(2) Includes loans, acceptances, deposits with banks and available-for-sale debt securities.
(3) Not applicable for retail exposures. Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, securitizations, derivatives and repo-style transactions (reverse repurchase agreements, repurchase agreements, securities lending and securities borrowing), net of related collateral.
(4) AIRB drawn and undrawn exposures include government guaranteed mortgages.
(5) Geographic segmentation is based upon the location of the ultimate risk of the credit exposure.

## Balance sheet asset categories cross-referenced to credit risk exposures

The table below provides a mapping of on-balance sheet asset categories that are included in the various Basel II exposure categories as presented in the credit exposure summary table on page 153 of these financial statements. The amounts for Basel II purposes do not include certain assets such as cash, precious metals, available-for-sale equity securities and other assets. Also excluded from Basel II credit exposures are all trading book assets and assets of the Bank's insurance subsidiaries.

| | Balance sheet asset exposures | | | | |
|---|---|---|---|---|---|
| | Drawn[1] | | Other exposures | | |
| As at October 31, 2011 ($ millions) | Non-retail | Retail | Securitization | Repo-style transactions | Derivatives |
| Deposits with banks | $ 36,396 | $ – | $ – | $ 6,914 | $ – |
| Available-for-sale debt securities | 26,179[2] | 21,446 | 397 | – | – |
| Residential mortgages | 53,982[3] | 68,641 | – | – | – |
| Personal and credit cards loans | – | 59,562 | 2,934 | – | – |
| Securities purchased under resale agreements | – | – | – | 34,582 | – |
| Business and government loans | 103,353 | – | 1,126 | 7,814 | – |
| Customers' liability under acceptances | 8,171 | – | – | – | 37,208 |
| Derivative instruments | – | – | – | – | – |
| Other assets | 1,303 | 125 | – | – | – |
| Total | $ 229,384 | $ 149,774 | $ 4,457 | $ 49,310 | $ 37,208 |
| As at October 31, 2010 | $ 201,014 | $ 153,412 | $ 6,926 | $ 41,238 | $ 26,852 |

(1) Gross of allowances for credit losses for AIRB exposures and net of specific allowances for standardized exposures.
(2) Includes securities held as trading under fair value option.
(3) Includes government guaranteed residential mortgages.

### (ii) Credit quality of non-retail exposures

Credit decisions are made based upon an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include: the borrower's management; the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; and geopolitical risk. Banking units and Global Risk Management also review the credit quality of the credit portfolio across the organization on a regular basis to assess whether economic trends or specific events may affect the performance of the portfolio.

The Bank's non-retail portfolio is well diversified by industry. As at October 31, 2011 and October 31, 2010, a significant portion of the authorized corporate and commercial lending portfolio was internally assessed at a grade that would generally equate to an investment grade rating by external rating agencies.

Internal grades are used to differentiate the risk of default of borrower. The following table cross references the Bank's internal borrower grades with equivalent ratings categories utilized by external rating agencies:

Cross referencing of internal ratings to external ratings

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

### Non-retail AIRB portfolio

The credit quality of the non-retail AIRB portfolio, expressed in terms of risk categories of borrower internal grades is shown in the table below:

| As at October 31 ($ millions) Category of internal grades | 2011 Exposure at default(1) Drawn | Undrawn commitments | Other exposures(2) | Total | 2010 Total |
|---|---|---|---|---|---|
| Investment grade | $ 88,990 | $ 39,222 | $ 51,901 | **$ 180,113** | $ 145,253 |
| Non-investment grade | 48,106 | 13,370 | 7,766 | **69,242** | 38,967 |
| Watch list | 2,733 | 217 | 69 | **3,019** | 3,185 |
| Default | 1,518 | 142 | 103 | **1,763** | 837 |
| Total, excluding residential mortgages | $ 141,347 | $ 52,951 | $ 59,839 | **$ 254,137** | $ 188,242 |
| Government guaranteed residential mortgages(3) | 53,552 | – | – | **53,552** | 48,733 |
| Total | $ 194,899 | $ 52,951 | $ 59,839 | **$ 307,689** | $ 236,975 |

(1) After credit risk mitigation.
(2) Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, derivatives, securitizations, excluding first loss protection of $593 (October 31, 2010 – $783) and repo-style transactions (reverse repurchase agreements, repurchase agreements and securities lending and borrowing), net of related collateral.
(3) Under Basel II, these exposures are classified as sovereign exposure and included in the non-retail category.

### Non-retail standardized portfolio

Non-retail standardized portfolio as at October 31, 2011 comprised of drawn, undrawn and other exposures to corporate, bank and sovereign counterparties amounted to $38 billion (October 31, 2010 – $79 billion). Exposures to most Corporate/Commercial counterparties mainly in the Caribbean and Latin American region, are to non-investment grade counterparties based on the Bank's internal grading systems.

### (iii) Credit quality of retail exposures

The Bank's credit underwriting methodology and risk modeling is more customer focused than product focused. Generally, decisions on consumer loans are based on risk ratings, which are generated using predictive scoring models. Individual credit requests are processed by proprietary adjudication software designed to calculate the maximum debt for which a customer qualifies.

The Bank's retail portfolios consist of a number of relatively small loans to a large number of borrowers. The portfolios are distributed across Canada and a wide range of countries. As such, the portfolios inherently have a high degree of diversification.

### Retail AIRB portfolio

The data in the table below provides a distribution of the retail AIRB exposure within each PD grade by exposure class:

| As at October 31 ($ millions) Category of (PD) grades | PD range | 2011 Exposure at default(1) Real estate secured: Mortgages | Real estate secured: Line of credit | Qualifying revolving | Other retail | Total | 2010 Total |
|---|---|---|---|---|---|---|---|
| Very low | 0.0000 – 0.2099% | $ 56,282 | $ 22,314 | $ 11,363 | $ 2,208 | **$ 92,167** | $ 84,182 |
| Low | 0.2100 – 0.4599% | 5,814 | 282 | 4,383 | 5,891 | **16,370** | 19,510 |
| Medium | 0.4600 – 3.1999% | 9,327 | 5,572 | 8,058 | 4,725 | **27,682** | 23,249 |
| High | 3.200 – 17.2899% | 1,852 | 1,311 | 2,112 | 978 | **6,253** | 2,461 |
| Very high | 17.2900 – 99.9999% | 321 | 201 | 335 | 247 | **1,104** | 998 |
| Default | 100% | 202 | 37 | 183 | 120 | **542** | 551 |
| Total | | $ 73,798 | $ 29,717 | $ 26,434 | $ 14,169 | **$ 144,118** | $ 130,951 |

(1) After credit risk mitigation.

### Retail standardized portfolio

As at October 31, 2011, the retail standardized portfolio of $30 billion (October 31, 2010 – $29 billion) was comprised of residential mortgages, personal loans, credit cards and lines of credit to individuals, mainly in the Caribbean and Latin American region. Of the total retail standardized portfolio, $17 billion (October 31, 2010 – $17 billion) was represented by mortgages and loans secured by residential real estate, mostly with a loan-to-value ratio of below 80%.

### (iv) Collateral

### Collateral held

In the normal course of business, to reduce its exposure to counterparty credit risk, the Bank receives collateral on derivative, securities borrowing and lending, and other transactions related to the capital markets. The following are examples of the terms and conditions customary to collateral for these types of transactions:

- The risks and rewards of the pledged assets reside with the pledgor.
- Additional collateral is required when the market value of the transaction exceeds thresholds agreed upon with the pledgor.
- The Bank is normally permitted to sell or repledge the collateral it receives, although this right is specific to each agreement under which the collateral is pledged.

– Upon satisfaction of the obligation, the Bank must return the pledged assets; unless the Bank has the right to sell or repledge the collateral it receives, in which case the Bank must return comparable collateral to the pledgor.

As at October 31, 2011, the approximate market value of collateral accepted that may be sold or repledged by the Bank was $59.3 billion (2010 – $44.3 billion). This collateral is held primarily in connection with reverse repurchase agreements, securities borrowing and lending, and derivative transactions.

### Collateral pledged

In the normal course of business, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Note 24(d) details the nature and extent of the Bank's asset pledging activities. Asset pledging trans-actions are conducted under terms that are common and customary to standard derivative, securities borrowing and lending, and other lending activities. Standard risk management controls are applied with respect to asset pledging.

## (b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. The Bank's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee (LCO) provides senior management oversight of liquidity risk through its weekly meetings.

The key elements of the Bank's liquidity risk management framework include:

– liquidity risk measurement and management limits, including limits on maximum net cash outflow by currency over specified short-term horizons;
– prudent diversification of its wholesale funding activities by using a number of different funding programs to access the global financial markets and manage its maturity profile, as appropriate;
– large holdings of liquid assets to support its operations, which can generally be sold or pledged to meet the Bank's obligations;
– liquidity stress testing, including Bank-specific, Canada-systemic, and global-systemic scenarios; and
– liquidity contingency planning.

The Bank's foreign operations have liquidity management frameworks that are similar to the Bank's framework. Local deposits are managed from a liquidity risk perspective based on the local management frameworks and regulatory requirements.

### (i) Contractual maturities

The table below shows the contractual maturities of certain of the Bank's financial liabilities:

| As at October 31, 2011 ($ millions) | Payable on demand | Payable after notice | Payable in less than one year | Payable in one to five years | Payable in greater than five years | Total |
|---|---|---|---|---|---|---|
| Deposits | $ 60,324 | $ 67,438 | $ 192,337 | $ 70,110 | $ 6,167 | **$ 396,376** |
| Subordinated debentures | – | – | – | 251 | 5,672 | **5,923** |
| Total | $ 60,324 | $ 67,438 | $ 192,337 | $ 70,361 | $ 11,839 | **$ 402,299** |
| As at October 31, 2010 | $ 55,641 | $ 67,674 | $ 167,711 | $ 66,523 | $ 10,540 | $ 368,089 |

### (ii) Commitments to extend credit

In the normal course of business, the Bank enters into commitments to extend credit in the form of loans or other financings for specific amounts and maturities, subject to specific conditions. These commitments, which are not reflected on the Consolidated Balance Sheet, are subject to normal credit standards, financial controls and monitoring procedures. As at October 31, 2011 and October 31, 2010, approximately half of the commitments to extend credit had a remaining term to maturity of less than one year.

### (iii) Derivative instruments

The Bank is subject to liquidity risk relating to its use of derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and lower its cost of capital. The maturity profile of the notional amounts of the Bank's derivative instruments is summarized in Note 28(b).

## (c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board. The LCO and Market Risk Management and Policy Committee oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures.

The Bank uses a variety of metrics and models to measure and control market risk exposures. The measurements used are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Value at Risk (VaR), stress testing, sensitivity analysis and simulation modeling, and gap analysis. The Board reviews results from these metrics quarterly. Models are independently validated internally prior to implementation and are subject to formal periodic review.

VaR is a statistical measure that estimates the potential loss in value of the Bank's positions due to adverse market movements over a defined time horizon with a specified confidence level. The quality of the Bank's VaR is validated by regular back testing analysis, in which the VaR is compared to theoretical and actual profit and loss results. To complement VaR, the Bank also uses stress testing to examine the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis.

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers. Gap analysis is used to assess the interest

rate sensitivity of the Bank's retail, wholesale banking and international operations. Under gap analysis, interest rate-sensitive assets, liabilities and derivative instruments are assigned to defined time periods, on the earlier of contractual repricing or maturity dates on the basis of expected repricing dates.

### (i) Interest rate risk

Interest rate risk, inclusive of credit spread risk, is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's funding and investment activities is managed in accordance with Board-approved policies and global limits, which are designed to control the risk to income and economic value of shareholders' equity. The income limit measures the effect of a specified shift in interest rates on the Bank's annual net income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures in individual currencies are also controlled by gap limits.

### Interest rate sensitivity gap

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity, and derivative instrument notional amounts in order to arrive at the Bank's interest rate gap based on the earlier of contractual repricing or maturity dates. To arrive at the Bank's view of its effective interest rate gap, adjustments are made to factor in expected mortgage and loan repayments based on historical patterns and reclassify the Bank's trading instruments to the Immediately rate sensitive and Within 3 months categories.

All Bank

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| As at October 31 ($ 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 | $ 1,671 | $ 39,342 | $ 704 | $ – | $ – | $ 12,754 | **$ 54,471** |
| Trading securities | 19 | 4,743 | 5,903 | 14,736 | 11,169 | 26,757 | **63,327** |
| Securities, other than trading | 1,703 | 9,692 | 5,108 | 30,452 | 1,923 | 7,668[2] | **56,546** |
| Securities purchased under resale agreements | 2,983 | 27,548 | 4,051 | – | – | – | **34,582** |
| Loans | 30,268 | 158,097 | 31,744 | 69,197 | 8,125 | 1,271[3] | **298,702** |
| Other assets | – | – | – | – | – | 67,628[4] | **67,628** |
| Total assets | $ 36,644 | $239,422 | $ 47,510 | $114,385 | $21,217 | $116,078 | **$575,256** |
| Deposits | $ 48,436 | $217,131 | $ 43,309 | $ 68,836 | $ 3,697 | $ 14,967 | **$396,376** |
| Obligations related to assets sold under repurchase agreements | 9,379 | 35,753 | 930 | – | – | – | **46,062** |
| Obligations related to securities sold short | 24 | 897 | 1,005 | 6,993 | 4,800 | 1,731 | **15,450** |
| Subordinated debentures | – | – | 172 | 5,214 | 537 | – | **5,923** |
| Capital instrument liabilities | – | – | – | – | – | – | **–** |
| Other liabilities | – | – | – | – | – | 78,045[4] | **78,045** |
| Shareholders' equity | – | – | – | – | – | 33,400[4] | **33,400** |
| Total liabilities and shareholders' equity | $ 57,839 | $253,781 | $ 45,416 | $ 81,043 | $ 9,034 | $128,143 | **$575,256** |
| On-balance sheet gap | (21,195) | (14,359) | 2,094 | 33,342 | 12,183 | (12,065) | **–** |
| Off-balance sheet gap | – | 10,748 | 1,025 | (12,051) | 278 | – | **–** |
| Interest rate sensitivity gap based on contractual repricing | (21,195) | (3,611) | 3,119 | 21,291 | 12,461 | (12,065) | **–** |
| Adjustment to expected repricing | 38,885 | 14,268 | (11,213) | (23,052) | (8,708) | (10,180) | – |
| **Total interest rate sensitivity gap** | **$ 17,690** | **$ 10,657** | **$ (8,094)** | **$ (1,761)** | **$ 3,753** | **$ (22,245)** | **$ –** |
| **Cumulative gap** | **$ 17,690** | **$ 28,347** | **$ 20,253** | **$ 18,492** | **$22,245** | **$ –** | **–** |
| As at October 31, 2010 ($ millions) | | | | | | | |
| Total interest rate sensitivity gap | $ (7,952) | $ 32,649 | $ (9,526) | $ 1,855 | $ 4,558 | $ (21,584) | **$ –** |
| Cumulative gap | $ (7,952) | $ 24,697 | $ 15,171 | $ 17,026 | $21,584 | $ – | **$ –** |

(1) Represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, prime rate loans.
(2) This represents common shares, preferred shares and equity accounted investments.
(3) This represents net impaired loans, less the general allowance.
(4) This includes non-financial instruments.

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

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

| As at October 31, 2011 (%) | Immediately rate sensitive | Within 3 months | Three to 12 months | One to 5 years | Over 5 years | **Total** |
|---|---|---|---|---|---|---|
| Cash resources | 1.8% | 0.6% | 1.4% | –% | –% | **0.7%** |
| Trading securities | – | 2.0 | 2.2 | 2.2 | 3.5 | **2.6** |
| Securities, other than trading(1) | 1.6 | 2.9 | 4.0 | 3.7 | 4.5 | **3.5** |
| Securities purchased under resale agreements | 0.1 | 1.3 | 1.0 | – | – | **1.1** |
| Loans(2) | 4.3 | 3.4 | 5.4 | 4.8 | 5.7 | **4.1** |
| Deposits(3) | 0.9 | 0.8 | 2.3 | 3.0 | 5.2 | **1.4** |
| Obligations related to assets sold under repurchase agreements | 0.1 | 1.3 | 1.4 | – | – | **1.1** |
| Obligations related to securities sold short | 0.2 | 0.9 | 1.1 | 1.0 | 2.3 | **1.5** |
| Subordinated debentures(3) | – | – | 0.1 | 5.6 | 5.7 | **5.5(4)** |

| As at October 31, 2010 (%) | Immediately rate sensitive | Within 3 months | Three to 12 months | One to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash resources | 2.8% | 0.6% | 0.9% | –% | –% | 0.7% |
| Trading securities | – | 1.1 | 1.6 | 2.4 | 3.6 | 2.5 |
| Securities, other than trading(1) | 1.2 | 4.5 | 3.7 | 4.2 | 4.2 | 3.9 |
| Securities purchased under resale agreements | 0.2 | 1.2 | 0.7 | – | – | 1.2 |
| Loans(2) | 5.0 | 3.5 | 4.3 | 4.9 | 6.2 | 4.2 |
| Deposits(3) | 0.8 | 0.9 | 2.4 | 3.2 | 5.4 | 1.5 |
| Obligations related to securities sold under repurchase agreements(3) | 0.2 | 1.2 | 1.7 | – | – | 1.1 |
| Obligations related to securities sold short | – | 0.9 | 1.1 | 1.3 | 3.0 | 1.8 |
| Subordinated debentures(3) | – | – | 0.7 | 5.4 | 6.3 | 5.5(4) |
| Capital instrument liabilities(3) | – | 7.3 | – | – | – | 7.3 |

(1) Yields are based on cost or amortized cost and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. Yields on tax-exempt securities have not been computed on a taxable equivalent basis.
(2) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any unearned income.
(3) Yields are based on book values and contractual rates.
(4) After adjusting for the impact of related derivatives, the yield was 5.2% (2010 – 5.2%).

## Interest rate sensitivity

Based on the Bank's interest rate positions, the following table shows the pro-forma after-tax impact on the Bank's net income over the next twelve months and economic value of shareholders' equity of an immediate and sustained 100 and 200 basis point increase and decrease in interest rates across major currencies as defined by the Bank.

| As at October 31 | **2011** | | | | | | 2010 | |
|---|---|---|---|---|---|---|---|---|
| | Net income | | | Economic value of equity | | | | |
| ($ millions) | Canadian dollar | Other currencies(1) | Total | Canadian dollar | Other currencies(1) | Total | Net income | Economic value of equity |
| 100 bp increase | **$ 139** | **$ 39** | **$ 178** | **$ 56** | **$(200)** | **$(144)** | $ 50 | $ (415) |
| 100 bp decrease | **$(144)** | **$(41)** | **$(185)** | **$(149)** | **$ 235** | **$ 86** | $ (35) | $ 411 |
| 200 bp increase | **$ 291** | **$ 77** | **$ 368** | **$ 79** | **$(379)** | **$(300)** | $ 102 | $ (829) |
| 200 bp decrease | **$(284)** | **$(82)** | **$(366)** | **$(328)** | **$ 452** | **$ 124** | $ (80) | $ 858 |

(1) The 2011 net income and economic value of equity includes Mexican, Chilean and Peruvian currency balance sheets.

## (ii) Non-trading foreign currency risk

Foreign currency risk is the risk of loss due to changes in spot and forward rates, and the volatility of currency exchange rates. Non-trading foreign currency risk, also referred to as structural foreign exchange risk, arises primarily from Bank's net investments in self-sustaining foreign operations and is controlled by a Board-approved limit. This limit considers potential volatility to shareholders' equity as well as the potential impact on capital ratios from foreign exchange fluctuations. On a quarterly basis, the LCO reviews the Bank's exposures to these net investments. The Bank may fully or partially hedge this exposure by funding the investments in the same currency, or by using other financial instruments, including derivatives.

The Bank is subject to foreign currency risk on the earnings of its foreign operations. To manage this risk, foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, are

projected over a number of future fiscal quarters. The LCO assesses economic data and forecasts to decide on the portion of the estimated future foreign currency revenues and expenses to hedge. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency options and swaps.

As at October 31, 2011, a one percent increase (decrease) in the Canadian dollar against all currencies in which the Bank operates decreases (increases) the Bank's before-tax annual earnings by approximately $33 million (October 31, 2010 – $34 million) in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar as at October 31, 2011 would increase (decrease) the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately $216 million (October 31, 2010 – $199 million), net of hedging.

### (iii) Equity risk

Equity risk is the risk of loss due to adverse movements in equity prices. Equity price risk is often classified into two categories: general equity risk, which refers to the sensitivity of an instrument or portfolio's value to changes in the overall level of equity prices, and specific equity risk, which refers to that portion of an individual equity instrument's price volatility that is determined by entity-specific characteristics.

The Bank is exposed to equity risk through its equity investment portfolios, which are controlled by Board-approved portfolio, VaR, and stress-test limits. Equity investments include common and preferred shares, as well as a diversified portfolio of third-party managed funds.

The majority of the Bank's equity investment portfolios are managed by Group Treasury under the strategic direction of the LCO. The Investment Committee reviews and approves equity investment strategies, tactical asset allocation and specified types of transactions identified in its mandate. Group Treasury delegates the management of a portion of equity and equity-related portfolios to other external fund managers to take advantage of these fund managers' expertise in particular market niches and products.

The fair value of available-for-sale equity securities is shown in Note 3.

### (iv) Trading portfolio risk management

Trading activity of the Bank is primarily focused on client flow transactions. A trading portfolio consists of positions in financial products held either with trading intent or in order to hedge other elements of the trading book.

Market risk arising from the Bank's trading activities is managed in accordance with Board-approved policies and limits, including aggregate VaR and stress testing limits.

Trading portfolios are marked-to-market in accordance with the Bank's valuation policies. Positions are marked-to-market daily and valuations are independently reviewed by back office or GRM units on a regular basis. These units also provide profit and loss reporting, as well as VaR and limit compliance reporting to business unit management and executive management for evaluation and action as appropriate. VaR is calculated daily using a 99% confidence level, and a one-day holding period. This means that, about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. The Bank calculates general market risk and equity specific risk VaR using historical simulation based on 300 days of market data. For debt specific risk VaR, the Bank uses a combination of Monte Carlo and historical simulation. The table below shows the Bank's VaR by risk factor:

### One-day VaR by risk factor

| | | For the year ended October 31, 2011 | | | |
|---|---|---|---|---|---|
| ($ millions) | **As at October 31, 2011** | Average | High | Low | As at October 31, 2010 |
| Interest rate | **$ 8.3** | $ 10.3 | $ 20.9 | $6.2 | $ 9.0 |
| Equities | **1.7** | 4.8 | 10.9 | 1.1 | 3.4 |
| Foreign exchange | **1.3** | 1.2 | 2.4 | 0.4 | 0.9 |
| Commodities | **2.6** | 2.2 | 4.5 | 1.2 | 1.5 |
| Diversification | **(5.4)** | (7.2) | n/a | n/a | (6.3) |
| All-Bank VaR | **$ 8.5** | $ 11.3 | $ 19.6 | $7.8 | $ 8.5 |

## 26 Financial instruments – fair value

Fair value is normally defined as the amount of consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is quoted bid or ask prices in an active market. Quoted prices are not always available for over-the-counter transactions, as well as transactions in inactive or illiquid markets. In these instances, internal models, normally with observable market-based inputs, are used to estimate fair value. Financial instruments traded in a less active market have been valued using indicative market prices, present value or other valuation techniques. Fair value estimates normally do not consider forced or liquidation sales. Where financial instruments trade in inactive markets or when using models where observable parameters do not exist, greater management judgement is required for valuation purposes. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and therefore may not be reflective of future fair values.

Changes in interest rates and credit spreads are the main cause of changes in the fair value of the Bank's financial instruments resulting in a favourable or unfavourable variance compared to book value. For the Bank's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For available-for-sale securities, derivatives and financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value.

The book value of certain financial assets and financial liabilities that are carried at cost or amortized cost may exceed their fair value due primarily to changes in interest rates and credit spreads. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair value as it is the Bank's intention to hold them until there is a recovery of fair value, which may be to maturity.

## Fair value of financial instruments

The following table sets out the fair values of financial instruments of the Bank using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

| As at October 31 ($ millions) | 2011 Total fair value | 2011 Total carrying value | 2011 Favourable/ (Unfavourable) | 2010 Total fair value | 2010 Total carrying value | 2010 Favourable/ (Unfavourable) |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash resources | **$ 54,471** | **$ 54,471** | **$ –** | $ 46,027 | $ 46,027 | $ – |
| Securities | **119,873** | **119,873** | **–** | 116,563 | 116,563 | – |
| Securities purchased under resale agreements | **34,582** | **34,582** | **–** | 27,920 | 27,920 | – |
| Loans | **302,982** | **298,702** | **4,280** | 285,982 | 284,224 | 1,758 |
| Customers' liability under acceptances | **8,172** | **8,172** | **–** | 7,616 | 7,616 | – |
| Derivative instruments (Note 28) | **37,208** | **37,208** | **–** | 26,852 | 26,852 | – |
| Other | **7,622** | **7,622** | **–** | 6,820 | 6,820 | – |
| Liabilities: | | | | | | |
| Deposits | **397,914** | **396,376** | **(1,538)** | 363,323 | 361,650 | (1,673) |
| Acceptances | **8,172** | **8,172** | **–** | 7,616 | 7,616 | – |
| Obligations related to securities sold under repurchase agreements | **46,062** | **46,062** | **–** | 40,286 | 40,286 | – |
| Obligations related to securities sold short | **15,450** | **15,450** | **–** | 21,519 | 21,519 | – |
| Other | **29,294** | **29,294** | **–** | 29,063 | 29,063 | – |
| Subordinated debentures | **6,348** | **5,923** | **(425)** | 6,439 | 5,939 | (500) |
| Capital instrument liabilities | **–** | **–** | **–** | 505 | 500 | (5) |
| Derivative instruments (Note 28) | **40,889** | **40,889** | **–** | 31,990 | 31,990 | – |

## Determination of fair value

The following methods and assumptions were used to estimate the fair values of financial instruments (refer to Note 28(d) for fair value of derivative instruments).

The fair values of cash resources, securities purchased under resale agreements, customers' liability under acceptances, other assets, obligations related to securities sold under repurchase agreements, acceptances and other liabilities are assumed to approximate their carrying values, due to their short-term nature.

Fair values of securities are disclosed in Note 3 for those securities that have quoted market prices; for available-for-sale equity securities that have no quoted market prices, the amounts reflected in the table above include such securities at cost. The value of obligations related to securities sold short are carried at fair value. These fair values are based on quoted prices, when available. When a quoted price is not readily available, fair values are estimated using quoted market prices of similar securities, or other valuation techniques.

The estimated fair value of loans reflects changes in the general level of interest rates that have occurred since the loans were originated. The particular valuation methods used are as follows:

– For floating rate loans, potential adjustments for credit spread changes are not considered when estimating fair values. Therefore, fair value is assumed to be equal to book value.
– For all other loans, fair value is determined by discounting the expected future cash flows of these loans at market rates for loans with similar terms and risks.

The fair values of deposits payable on demand or after notice or floating rate deposits payable on a fixed date are not adjusted for credit spread changes. Therefore, fair value is assumed to equal book value for these types of deposits. The estimated fair values of fixed-rate deposits payable on a fixed date are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

The fair values of subordinated debentures and capital instrument liabilities are determined by reference to quoted market prices. When quoted market prices are not available, fair values are estimated using current market prices for debt with similar terms and risks.

### Fair value hierarchy

The Bank values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Bank maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The following table outlines the fair value hierarchy of instruments carried at fair value:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Level 1 | Level 2[(1)] | Level 3 | Total | Level 1 | Level 2[(1)] | Level 3 | Total |
| Assets: | | | | | | | | |
| Trading securities[(2)] | **$ 41,988** | **$ 19,802** | **$ 1,537** | **$ 63,327** | $ 48,869 | $ 14,689 | $ 1,126 | $ 64,684 |
| Available-for-sale securities[(3)] | **14,169** | **35,442** | **1,650** | **51,261** | 13,801 | 31,246 | 1,263 | 46,310 |
| Derivative instruments | **1,171** | **35,600** | **437** | **37,208** | 499 | 25,652 | 701 | 26,852 |
| Liabilities: | | | | | | | | |
| Obligations related to securities sold short | **$ 10,150** | **$ 5,300** | **$ –** | **$ 15,450** | $ 17,685 | $ 3,832 | $ 2 | $ 21,519 |
| Derivative instruments | **1,452** | **37,737** | **1,700** | **40,889** | 506 | 29,051 | 2,433 | 31,990 |

(1) Loans and deposit notes designated as trading are classified as Level 2.
(2) Includes securities designated as trading. Level 2 trading securities are comprised of $6,481 (2010 – $4,710) of bonds mainly issued by foreign governments and $10,206 (2010 – $9,979) of corporate bonds and other debt and equity instruments which generally trade in public markets.
(3) Excludes available-for-sale equity securities that are not quoted in an active market of $794 (2010 – $918). Level 2 available-for-sale securities include $7,060 (2010 – $4,757) of bonds mainly issued by foreign governments and $6,148 (2010 – $7,810) of corporate bonds and other debt instruments which generally trade in public markets. The remaining Level 2 available-for-sale securities are primarily comprised of mortgage-backed securities guaranteed by Canada Mortgage and Housing Corporation.

### Level 3 instrument fair value changes

The following table summarizes changes in Level 3 instruments during the year:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Trading securities[(1)] | Available-for-sale securities | Derivative instruments | Trading securities[(1)] | Available-for-sale securities | Derivative instruments |
| Balance at beginning of year | **$ 1,124** | **$ 1,263** | **$(1,732)[(2)]** | $ 1,976 | $ 1,395 | $(1,285)[(2)] |
| Gains (losses) recorded in net income[(3)] | **37** | **28** | **(31)** | (16) | 9 | (268) |
| Gains (losses) recorded in other comprehensive income | **–** | **4** | **–** | – | 6 | – |
| Net purchases, sales, issuances and settlements | **356** | **334** | **495** | (742) | (142) | (196) |
| Other, net | **20** | **21** | **6** | (94) | (5) | 17 |
| Balance at end of year | **$ 1,537** | **$ 1,650** | **$(1,262)[(2)]** | $ 1,124 | $ 1,263 | $(1,732)[(2)] |

(1) Changes in Level 3 trading securities are net of changes in Level 3 obligations related to securities sold short.
(2) Represents a net liability.
(3) Gains or losses for items in Level 3 may be offset with losses or gains on related hedges in Level 1 or Level 2.

### Level 3 sensitivity analysis

The Bank applies judgment in determining unobservable inputs used to calculate the fair value of Level 3 instruments. Included in the Bank's Level 3 available-for-sale securities are certain securitization retained interests, illiquid debt instruments and structured credit investments. The unobservable inputs used in the valuation of these securities primarily include mortgage prepayment rates, the correlation of default, certain bond yields, as well as the timing and amount of cash flows. A sensitivity analysis has been performed to determine the potential gain or loss by varying the different assumptions by different amounts (for example, varying bond yields by – 0.1% to + 1.0%). For the Bank's available-for-sale securities, the impact of applying these other reasonably possible assumptions is a potential gain or loss of $31 million (2010 – $40 million) and $78 million (2010 – $85 million), respectively. The component of this potential gain or loss that would be recorded through other comprehensive income is $30 million (2010 – $38 million) and $74 million (2010 – $74 million), respectively.

Included in the Bank's Level 3 derivative instruments, trading securities and obligations related to securities sold short are unfunded synthetic collateralized debt obligations, certain interest rate swaps and equity options, and equity investments that are not quoted in an active market. The unobservable inputs used in the valuation of these instruments primarily include the correlation of default, mortgage prepayment rates and equity option volatilities. A sensitivity analysis has been performed on these valuations by varying the different assumptions by different amounts (for example, varying mortgage prepayment rates by +/- 5%). For the Bank's trading securities, derivative instruments and obligations related to securities sold short, the impact of applying these other reasonably possible assumptions is a potential net gain or loss of $125 million (2010 – $117 million) and $126 million (2010 – $121 million), respectively.

## 27 Financial instruments designated as trading

The Bank has elected to designate certain portfolios of assets and liabilities as trading, which are carried at fair value with changes in fair values recorded in income. These portfolios include:

- loans to economically hedge the derivative exposure arising from credit derivatives in the trading book transacted on behalf of customers, in order to significantly reduce or eliminate an accounting mismatch.
- loans in specifically authorized trading portfolios for which performance is evaluated on a fair value basis.
- certain debt and equity investments, in order to reduce an accounting mismatch between these assets and fair value changes in related derivatives.
- certain deposit note liabilities containing extension features, in order to significantly reduce an accounting mismatch between these liabilities and fair value changes in related derivatives.

The following table presents the fair value of assets and liabilities designated as trading and their changes in fair value:

| | Fair value | | Change in fair value[1] | | |
|---|---|---|---|---|---|
| As at and for the year ended October 31 ($ millions) | **2011** | 2010 | **2011** | 2010 | 2009 |
| Loans hedging derivative exposures[2] | **$ 1,038** | $ 2,096 | **$ 33** | $ 243 | $ 740 |
| Proprietary loans | **(1)** | 2 | **(1)** | (6) | 15 |
| Debt and equity investments | **1,138** | 2,764 | **–** | 146 | 190 |
| Deposit note liabilities[3] | **101** | 99 | **–** | (1) | (2) |

(1) These amounts were recorded in trading income except for deposit liabilities and certain debt investments which were recorded in net interest income.
(2) The changes in fair value of these loans were substantially offset by the changes in the fair value of the related credit derivatives.
(3) The Bank was contractually obligated to pay $100 to the holders of the notes at maturity (2010 – $97).

## 28 Derivative instruments

### (a) Notional amounts

The following table provides the aggregate notional amounts of derivative instruments outstanding by type and segregated between those used by the Bank in its dealer capacity (Trading) and those used in the Bank's asset/liability risk management process (ALM), which includes derivatives designated in hedging relationships. The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Credit derivatives within other derivative contracts are comprised primarily of purchased and sold credit default swap transactions. To a lesser extent, this category also includes total return swaps referenced to loans and debt securities. Other derivative contracts – other includes precious metals other than gold, and other commodities including energy and base metal derivatives.

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| As at October 31 ($ millions) | Trading | ALM | Total | Trading | ALM | Total |
| Interest rate contracts | | | | | | |
| Exchange-traded: | | | | | | |
| Futures | **$ 114,494** | **$ 5,534** | **$ 120,028** | $ 102,338 | $ 6,974 | $ 109,312 |
| Options purchased | **67,228** | **–** | **67,228** | 47,635 | – | 47,635 |
| Options written | **77,041** | **–** | **77,041** | 44,332 | – | 44,332 |
| | **258,763** | **5,534** | **264,297** | 194,305 | 6,974 | 201,279 |
| Over-the-counter: | | | | | | |
| Forward rate agreements | **139,936** | **498** | **140,434** | 112,520 | 8,888 | 121,408 |
| Swaps | **1,368,343** | **107,772** | **1,476,115** | 1,023,880 | 113,194 | 1,137,074 |
| Options purchased | **12,735** | **40** | **12,775** | 37,358 | 490 | 37,848 |
| Options written | **8,131** | **40** | **8,171** | 13,441 | 40 | 13,481 |
| | **1,529,145** | **108,350** | **1,637,495** | 1,187,199 | 122,612 | 1,309,811 |
| Total | **$1,787,908** | **$113,884** | **$1,901,792** | $ 1,381,504 | $ 129,586 | $ 1,511,090 |
| Foreign exchange and gold contracts | | | | | | |
| Exchange-traded: | | | | | | |
| Futures | **$ 16,590** | **$ –** | **$ 16,590** | $ 7,614 | $ – | $ 7,614 |
| Options purchased | **1,999** | **–** | **1,999** | 2,184 | – | 2,184 |
| Options written | **2,188** | **–** | **2,188** | 2,407 | – | 2,407 |
| | **20,777** | **–** | **20,777** | 12,205 | – | 12,205 |
| Over-the-counter: | | | | | | |
| Spot and forwards | **239,344** | **36,952** | **276,296** | 197,308 | 35,255 | 232,563 |
| Swaps | **174,132** | **15,066** | **189,198** | 139,376 | 16,864 | 156,240 |
| Options purchased | **1,994** | **–** | **1,994** | 3,239 | – | 3,239 |
| Options written | **2,301** | **–** | **2,301** | 3,480 | – | 3,480 |
| | **417,771** | **52,018** | **469,789** | 343,403 | 52,119 | 395,522 |
| Total | **$ 438,548** | **$ 52,018** | **$ 490,566** | $ 355,608 | $ 52,119 | $ 407,727 |
| Other derivative contracts | | | | | | |
| Equity: over-the-counter | **$ 32,548** | **$ 2,060** | **$ 34,608** | $ 34,906 | $ 1,868 | $ 36,774 |
| Credit: over-the-counter | **72,527** | **470** | **72,997** | 79,486 | 822 | 80,308 |
| Other | **41,878** | **3** | **41,881** | 18,916 | 12 | 18,928 |
| Total | **$ 146,953** | **$ 2,533** | **$ 149,486** | $ 133,308 | $ 2,702 | $ 136,010 |
| Total notional amounts outstanding | **$2,373,409** | **$168,435** | **$2,541,844** | $ 1,870,420 | $ 184,407 | $ 2,054,827 |

### (b) Remaining term to maturity

The following table summarizes the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type:

| As at October 31, 2011 ($ millions) | Within 1 year | One to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest rate contracts | | | | |
| Futures | $ 77,293 | $ 42,735 | $ – | **$ 120,028** |
| Forward rate agreements | 119,120 | 21,314 | – | **140,434** |
| Swaps | 500,230 | 727,900 | 247,985 | **1,476,115** |
| Options purchased | 76,160 | 3,417 | 426 | **80,003** |
| Options written | 80,494 | 4,055 | 663 | **85,212** |
| | 853,297 | 799,421 | 249,074 | **1,901,792** |
| Foreign exchange and gold contracts | | | | |
| Futures | 9,846 | 6,443 | 301 | **16,590** |
| Spot and forwards | 248,179 | 27,757 | 360 | **276,296** |
| Swaps | 43,884 | 96,754 | 48,560 | **189,198** |
| Options purchased | 2,419 | 1,574 | – | **3,993** |
| Options written | 3,273 | 1,216 | – | **4,489** |
| | 307,601 | 133,744 | 49,221 | **490,566** |
| Other derivative contracts | | | | |
| Equity | 24,124 | 10,232 | 252 | **34,608** |
| Credit | 14,813 | 52,832 | 5,352 | **72,997** |
| Other | 24,945 | 16,920 | 16 | **41,881** |
| | 63,882 | 79,984 | 5,620 | **149,486** |
| Total | $ 1,224,780 | $1,013,149 | $ 303,915 | **$ 2,541,844** |

| As at October 31, 2010 ($ millions) | Within 1 year | One to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest rate contracts | | | | |
| Futures | $ 71,407 | $ 37,905 | $ – | $ 109,312 |
| Forward rate agreements | 112,619 | 8,767 | 22 | 121,408 |
| Swaps | 486,014 | 504,647 | 146,413 | 1,137,074 |
| Options purchased | 81,573 | 3,655 | 255 | 85,483 |
| Options written | 53,589 | 3,878 | 346 | 57,813 |
| | 805,202 | 558,852 | 147,036 | 1,511,090 |
| Foreign exchange and gold contracts | | | | |
| Futures | 4,444 | 3,090 | 80 | 7,614 |
| Spot and forwards | 222,755 | 9,158 | 650 | 232,563 |
| Swaps | 38,453 | 74,564 | 43,223 | 156,240 |
| Options purchased | 4,727 | 696 | – | 5,423 |
| Options written | 5,196 | 691 | – | 5,887 |
| | 275,575 | 88,199 | 43,953 | 407,727 |
| Other derivative contracts | | | | |
| Equity | 24,203 | 12,158 | 413 | 36,774 |
| Credit | 16,376 | 55,497 | 8,435 | 80,308 |
| Other | 9,497 | 9,046 | 385 | 18,928 |
| | 50,076 | 76,701 | 9,233 | 136,010 |
| Total | $ 1,130,853 | $ 723,752 | $ 200,222 | $ 2,054,827 |

### (c) Credit risk

As with other financial assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Bank. However, whereas the credit risk of other financial assets is represented by the principal amount net of any applicable allowance for credit losses, the credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts generally expose the Bank to credit loss if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, credit risk of derivatives is represented by the positive fair value of the instrument.

Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. The net change in the exchange-traded contracts is normally settled daily in cash with the exchange. Holders of these contracts look to the exchange for performance under the contract.

The Bank strives to limit credit risk by dealing with counterparties that it believes are creditworthy, and manages its credit risk for derivatives through the same credit risk process applied to other financial assets.

The Bank pursues opportunities to reduce its exposure to credit losses on derivative instruments. These opportunities include entering into master netting arrangements with counterparties. The credit risk associated with favourable contracts is eliminated by a master netting arrangement to the extent that unfavourable contracts with the same counterparty are not settled before favourable contracts.

To control credit risk associated with derivatives, the Bank uses the same credit risk management activities and procedures that are used in the lending business in assessing and adjudicating potential credit exposure.

The Bank applies limits to each counterparty, measures exposure as the current positive fair value plus potential future exposure, and uses credit mitigation techniques, such as netting and collateralization. Investment grade counterparties account for a significant portion of the credit risk exposure arising from the Bank's derivative transactions as at October 31, 2011.

Derivative instruments used by the Bank include credit derivatives in its investment and loan portfolios: credit protection is sold as an alternative to acquire exposure to bond or loan assets, while credit protection is bought to manage or mitigate credit exposures.

The following table summarizes the credit exposure of the Bank's over-the-counter derivatives. The credit risk amount (CRA) represents the estimated replacement cost, or positive fair value, for all contracts. Effective 2011, CRA at product level, is presented after taking into account master netting or collateral arrangements that have been made. The CRA does not reflect actual or expected losses.

The credit equivalent amount (CEA) is the CRA plus an add-on for potential future exposure. The add-on amount is based on a formula prescribed in the Capital Adequacy Guideline of the Superintendent. The risk-weighted balance is calculated by multiplying the CEA by the capital requirement (K) times 12.5, where K is a function of the probability of default (PD), loss given default (LGD), maturity and prescribed correlation factors. Other derivative contracts – other includes precious metals other than gold, and other commodities including energy and base metal derivatives.

| As at October 31, 2011 ($ millions) | Notional amount | Credit risk amount[(1)] (CRA) | Credit equivalent amount[(1)] (CEA) | Risk-weighted assets[(1)] |
|---|---|---|---|---|
| Interest rate contracts | | | | |
| Futures | **$ 120,028** | **$ –** | **$ –** | **$ –** |
| Forward rate agreements | **140,434** | **7** | **52** | **10** |
| Swaps | **1,476,115** | **3,065** | **6,337** | **1,867** |
| Options purchased | **80,003** | **15** | **14** | **6** |
| Options written | **85,212** | **–** | **–** | **–** |
| | **1,901,792** | **3,087** | **6,403** | **1,883** |
| Foreign exchange and gold contracts | | | | |
| Futures | **16,590** | **–** | **–** | **–** |
| Spot and forwards | **276,296** | **1,707** | **4,311** | **932** |
| Swaps | **189,198** | **2,017** | **5,163** | **1,256** |
| Options purchased | **3,993** | **102** | **30** | **11** |
| Options written | **4,489** | **–** | **–** | **–** |
| | **490,566** | **3,826** | **9,504** | **2,199** |
| Other derivative contracts | | | | |
| Equity | **34,608** | **1,012** | **2,525** | **454** |
| Credit | **72,997** | **58** | **2,165** | **666** |
| Other | **41,881** | **786** | **1,817** | **668** |
| | **149,486** | **1,856** | **6,507** | **1,788** |
| Total derivatives | **$ 2,541,844** | **$ 8,769** | **$ 22,414** | **$ 5,870** |

(1) The amounts presented are net of collateral and master netting agreements at the product level. The total amounts relating to netting and collateral were $28,439 for CRA, and $37,412 for CEA.

| As at October 31, 2010 ($ millions) | Notional amount | Credit risk amount[(1)] (CRA) | Credit equivalent amount[(1)] (CEA) |
|---|---|---|---|
| Interest rate contracts | | | |
| Futures | $ 109,312 | $ – | $ – |
| Forward rate agreements | 121,408 | 30 | 75 |
| Swaps | 1,137,074 | 13,139 | 16,914 |
| Options purchased | 85,483 | 170 | 192 |
| Options written | 57,813 | – | – |
| | 1,511,090 | 13,339 | 17,181 |
| Foreign exchange and gold contracts | | | |
| Futures | 7,614 | – | – |
| Spot and forwards | 232,563 | 3,928 | 6,448 |
| Swaps | 156,240 | 6,451 | 13,806 |
| Options purchased | 5,423 | 183 | 265 |
| Options written | 5,887 | – | – |
| | 407,727 | 10,562 | 20,519 |
| Other derivative contracts | | | |
| Equity | 36,774 | 779 | 2,548 |
| Credit | 80,308 | 1,480 | 5,752 |
| Other | 18,928 | 692 | 2,085 |
| | 136,010 | 2,951 | 10,385 |
| Total derivatives | $2,054,827 | $26,852 | $48,085 |
| Less: impact of master netting and collateral | | 19,816 | 29,711 |
| Total | | $ 7,036 | $18,374 |
| Total risk-weighted assets | | | $ 5,656 |

(1) CRA and CEA are stated at product level, without taking into account any master netting or collateral arrangement.

## (d) Fair value

Fair values of exchange-traded derivatives are based on quoted market prices. Fair values of over-the-counter (OTC) derivatives are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments.

The following table summarizes the fair value of derivatives segregated by type and segregated between trading and those derivatives used in the Bank's asset/liability risk management process (ALM):

| | 2011 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | 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 | $ 56 | $ 33 | **$ 94** | **$ 48** | $ 27 | $ 23 |
| Swaps | 12,181 | 12,043 | **19,166** | **19,053** | 12,134 | 11,983 |
| Options | 126 | 120 | **138** | **122** | 169 | 162 |
| | 12,363 | 12,196 | **19,398** | **19,223** | 12,330 | 12,168 |
| **Foreign exchange and gold contracts** | | | | | | |
| Forwards | 3,965 | 4,405 | **5,097** | **5,347** | 3,692 | 4,229 |
| Swaps | 7,016 | 6,393 | **6,156** | **5,304** | 5,696 | 5,609 |
| Options | 139 | 161 | **163** | **210** | 183 | 180 |
| | 11,120 | 10,959 | **11,416** | **10,861** | 9,571 | 10,018 |
| **Other derivative contracts** | | | | | | |
| Equity[2] | 1,051 | 2,154 | **1,069** | **2,277** | 739 | 1,968 |
| Credit[2] | 1,323 | 3,789 | **1,588** | **4,692** | 1,446 | 3,132 |
| Other | 966 | 1,110 | **1,152** | **1,103** | 692 | 1,007 |
| | 3,340 | 7,053 | **3,809** | **8,072** | 2,877 | 6,107 |
| Trading derivatives' market valuation | $ 26,823 | $ 30,208 | **$ 34,623** | **$ 38,156** | $ 24,778 | $ 28,293 |
| **ALM** | | | | | | |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | | | **$ –** | **$ –** | $ 3 | $ 4 |
| Swaps | | | **1,233** | **1,607** | 1,005 | 1,757 |
| Options | | | **1** | **–** | 1 | – |
| | | | **1,234** | **1,607** | 1,009 | 1,761 |
| **Foreign exchange and gold contracts** | | | | | | |
| Forwards | | | **544** | **406** | 236 | 778 |
| Swaps | | | **731** | **636** | 755 | 1,029 |
| Options | | | **–** | **–** | – | – |
| | | | **1,275** | **1,042** | 991 | 1,807 |
| **Other derivative contracts** | | | | | | |
| Equity | | | **48** | **5** | 40 | 7 |
| Credit | | | **28** | **79** | 34 | 122 |
| Other | | | **–** | **–** | – | – |
| | | | **76** | **84** | 74 | 129 |
| ALM derivatives' market valuation | | | **$ 2,585** | **$ 2,733** | $ 2,074 | $ 3,697 |
| Total derivative instruments before netting | | | **$ 37,208** | **$ 40,889** | $ 26,852 | $ 31,990 |
| Less: impact of master netting and collateral | | | **28,439** | **28,439** | 19,816 | 19,816 |
| Total derivative instruments | | | **$ 8,769** | **$ 12,450** | $ 7,036 | $ 12,174 |

(1) The average fair values of trading derivatives' market valuation for the year ended October 31, 2010 were: favourable $23,758 and unfavourable $25,571. Average fair value amounts are based on month-end balances.

(2) A substantial portion of these derivative contracts are hedging exposures that are not derivative instruments and are classified elsewhere on the balance sheet, primarily trading securities and trading loans.

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| As at October 31 ($ millions) | Favourable | Unfavourable | Favourable | Unfavourable |
| Derivatives designated in fair value hedging relationships | **$ 996** | **$ 541** | $ 730 | $ 552 |
| Derivatives designated in cash flow hedging relationships | **186** | **703** | 126 | 825 |
| Derivatives designated in net investment hedging relationships | **21** | **23** | 4 | 24 |
| Total derivatives designated in hedging relationships | **$ 1,203** | **$ 1,267** | $ 860 | $ 1,401 |

Due to the ineffective portion of designated hedges, the Bank recorded a gain of $68 million (2010 – a gain of $105 million; 2009 – a gain of $127 million) in net interest income, of which a gain of $49 million (2010 – a gain of $28 million; 2009 – a gain of $51 million) related to cash flow hedges. No ineffectiveness was recognized on net investment hedges.

## 29 Acquisitions

### Current year

#### Canadian acquisition

**Acquisition of DundeeWealth Inc.**

As part of the Bank's strategy to expand its wealth management platform, on February 1, 2011, the Bank completed the acquisition of DundeeWealth Inc. (DundeeWealth), a diversified wealth management company. After the transaction, the Bank owned approximately 120 million common shares of DundeeWealth (representing 97% of the issued and outstanding common shares of DundeeWealth) and all of the issued and outstanding special shares and first preference shares, series X of DundeeWealth. Subsequently, on March 9, 2011, the Bank acquired the remaining 3% of the common shares of DundeeWealth.

As consideration for the additional 81% interest in DundeeWealth, the Bank issued approximately 31 million common shares, 16 million preferred shares and paid cash of $226 million. Total consideration, including the value of the equity interest held prior to the business combination, was $3,011 million. The fair value of the common shares is the quoted price of the shares of the Bank at the acquisition date. Prior to closing, DundeeWealth paid a special cash dividend of $2.00 per common share and special share and $1.67 per first preference share, series X, and also distributed to its shareholders one common share of Dundee Capital Markets Inc. (DCM) per common share and special share and 0.83 of a DCM common share per first preference share, series X. As a result, the Bank now owns approximately 18% of the issued and outstanding common shares of DCM.

The fair value of the identifiable assets and liabilities of DundeeWealth as at the date of acquisition were:

| *Fair value recognized on acquisition* ($ millions) | |
|---|---|
| Assets | |
| Cash and non-interest-bearing deposits with banks | $ 262 |
| Securities | 162 |
| Other assets | 458 |
| | $ 882 |
| Liabilities | |
| Other liabilities | 1,047 |
| Total identifiable net liabilities at fair value | $ (165) |
| Intangible assets arising on acquisition[1] | 1,948 |
| Goodwill arising on acquisition | 1,228 |
| Purchase consideration transferred | $ 3,011 |
| Purchase consideration transferred was comprised of: | |
| Cash | $ 226 |
| Common shares | 1,796 |
| Preferred shares | 409 |
| Fair value of previously held equity interest in DundeeWealth[2] | 546 |
| Contributed surplus | 34 |
| | $ 3,011 |

(1) Net of taxes of $661.
(2) The Bank recognized a $260 million gain in other income-other in the Consolidated Statement of Income as a result of remeasuring to fair value the equity interest in DundeeWealth held by the Bank before February 1, 2011.

Intangible assets of $2,609 million are primarily comprised of fund management contracts. Goodwill of $1,228 million largely reflects the value of synergies expected by combining certain operations within the Bank's existing asset and wealth management businesses as well as DundeeWealth's strong market presence and future growth prospects.

Transaction costs of $4 million are included in non-interest expenses – professional in the Consolidated Statement of Income .

In the nine months to October 31, 2011, DundeeWealth contributed other income of $647 million and net income of $111 million.

If the acquisition had occurred on November 1, 2010, management estimates for the three months ended January 31, 2011, consolidated other income would have increased by $281 million and consolidated net income would have increased by $42 million. These amounts represent the incremental 81% interest acquired. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on November 1, 2010. The impact of non-recurring items has been removed.

#### International acquisitions

**Royal Bank of Scotland's Corporate & Commercial Banking Operations in Chile**

On December 17, 2010, the Bank completed its acquisition of the Royal Bank of Scotland's (RBS) corporate and commercial banking operations in Chile. The purchase resulted in the Bank acquiring approximately $189 million of net assets of RBS and the Bank recorded negative goodwill of $52 million in Other income – other.

**Investment in Dresdner Bank, Brasil S.A.**

On September 30, 2011, the Bank acquired 100% of the outstanding shares of Dresdner Bank Brasil S.A.- Banco Multiplo (renamed Scotiabank Brasil S.A. Banco Multiplo) for cash consideration. Scotiabank Brasil S.A. Banco Multiplo has a multiple banking license and will offer a range of wholesale banking services. Under the terms of the transaction, the Bank acquired $149 million of net assets. The purchase price allocation for the acquisition was recorded in the fourth quarter and the Bank recorded negative goodwill of $27 million in Other income – other.

**Investment in Bank of Guangzhou (BGZ), China**

On September 9, 2011, the Bank announced its intention to purchase a 19.99% stake in the Bank of Guangzhou (BGZ) for approximately $719 million (CNY 4.65 billion). The investment is subject to regulatory approval.

**Investment in Banco Colpatria, Colombia**

On October 20, 2011, the Bank announced its agreement to pay US$500 million and 10,000,000 common shares of the Bank for 51% of the common shares of Banco Colpatria Multibanca Colpatria S.A. in Colombia. The transaction is expected to close in the first quarter of 2012 and is subject to regulatory approval.

### Investment in Pronto! and Nuevo Comercial S.A., Uruguay

The Bank completed its acquisition of 100% of the common shares of Pronto! on February 4, 2011. On June 29, 2011, the Bank also acquired 100% of the common shares of Nuevo Banco Comercial S.A. These acquisitions represent Scotiabank's entry into Uruguay and the impact is not financially material to the Bank.

### Prior year

#### International acquisitions

### Thanachart Bank and Siam City Bank

On April 9, 2010, the Bank's affiliate Thanachart Bank (Scotiabank currently owns 49%), acquired a 48% stake of Thailand's Siam City Bank. In accordance with securities laws in Thailand, upon closing of the 48% stake, Thanachart Bank launched a tender offer for the remaining shares in Siam City Bank. The completed tender offer resulted in Thanachart Bank owning 99% of Siam City Bank. As part of the financing for this transaction, Scotiabank subscribed to additional shares in Thanachart Bank of approximately $663 million. This investment is accounted for under the equity method of accounting.

### R-G Premier Bank of Puerto Rico

On April 30, 2010, the Bank, through its subsidiary Scotiabank de Puerto Rico, acquired R-G Premier Bank of Puerto Rico. Under the terms of the transaction, Scotiabank acquired US$5.6 billion in assets, which included US$5.2 billion of loans covered under a loss sharing agreement with the Federal Deposit Insurance Corporation (FDIC). Under this agreement, the FDIC guarantees 80% of loan losses. The acquisition also included US$2.2 billion in deposits with the remainder financed by the FDIC.

The purchase price allocation for the acquisition was finalized and the Bank recorded goodwill of US$250 million.

## 30 Reconciliation of Canadian and United States generally accepted accounting principles (GAAP)

The consolidated financial statements of the Bank have been prepared in accordance with Canadian GAAP. The significant measurement differences between Canadian and U.S. GAAP affecting the consolidated financial statements are as follows:

### Reconciliation of net income

| | Net income | | |
|---|---|---|---|
| For the year ended October 31 ($ millions) | **2011** | 2010 | 2009 |
| Net income based on Canadian GAAP attributable to: | | | |
| Common shareholders of the Bank | **$ 4,959** | $ 4,038 | $ 3,361 |
| Preferred shareholders of the Bank | **216** | 201 | 186 |
| Non-controlling interests (p) | **93** | 100[(1)] | 114[(1)] |
| Net income based on Canadian GAAP | **$ 5,268** | $ 4,339 | $ 3,661 |
| Consolidation of variable interest entities (a) | **7** | – | – |
| Employee future benefits (b) | **(207)** | (82) | (91) |
| Transfers of loans through securitizations (d) | **19** | (14) | – |
| Derivative instruments and hedging activities (e) | **141** | (124) | (427) |
| Conversion of loans into debt securities (g) | **20** | 66 | 39 |
| Unrealized gains (losses) on securities reclassified (g) | **3** | 57 | (17) |
| Computer software (h) | **(3)** | (3) | (3) |
| Stock-based compensation (i) | **10** | 31 | 5 |
| Liabilities and equity (j) | **6** | 37 | 37 |
| Business combinations (m) | **5** | (6) | – |
| Equity accounted investments (o) | **–** | 23 | – |
| Tax effect of above differences | **(4)** | (19) | 119 |
| Net income based on U.S. GAAP | **$ 5,265** | $ 4,305 | $ 3,323 |
| Net income based on U.S. GAAP attributable to: | | | |
| Common shareholders of the Bank | **$ 4,950** | $ 3,967 | $ 2,986 |
| Preferred shareholders of the Bank | **216** | 201 | 186 |
| Non-controlling interests (p) | **99[(2)]** | 137[(2)] | 151[(2)] |
| Net income based on U.S. GAAP | **$ 5,265** | $ 4,305 | $ 3,323 |
| Earnings per share based on U.S. GAAP (in dollars)[(3)] | | | |
| Basic | **$ 4.62** | $ 3.84 | $ 2.95 |
| Diluted | **$ 4.61** | $ 3.84 | $ 2.94 |

(1) Prior to 2011, non-controlling interest was a deduction to arrive at net income under Canadian GAAP. In 2011, the Bank has adopted new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests (see Note 1) that present the attribution of net income to equity holders, including non-controlling interests, on a consistent basis with U.S. GAAP. The prior years' presentation has been restated to conform with current period presentation.

(2) The net income based on U.S. GAAP attributable to non-controlling interests represents the non-controlling interests' portion of net income based on Canadian GAAP and the impact of Canadian GAAP/U.S. GAAP differences noted in liabilities and equity (j).

(3) Earnings per share calculations are based on full dollar and share amounts.

## Reconciliation of retained earnings

| As at October 31, 2011 ($ millions) | 2011 | 2010 |
|---|---|---|
| Canadian GAAP Retained Earnings | **$ 24,662** | $ 21,932 |
| Consolidation of variable interest entities (a) | **(25)** | – |
| Employee future benefits (b) | **(345)** | (199) |
| Restructuring costs (c) | **(4)** | (4) |
| Transfers of loans through securitizations (d) | **14** | – |
| Derivative instruments and hedging activities (e) | **(79)** | (172) |
| Unrealized gains(losses) on securities reclassified (g) | **(17)** | (20) |
| Conversion of loans into debt securities (g) | **(36)** | (49) |
| Computer software (h) | **9** | 11 |
| Stock-based compensation (i) | **(8)** | (15) |
| Business combinations (m) | **1** | (5) |
| Equity accounted investments (o) | **20** | 20 |
| Total Retained Earnings Adjustments | **(470)** | (433) |
| US GAAP Retained Earnings | **$ 24,192** | $ 21,499 |

### (a) Consolidation of variable interest entities

Under Canadian GAAP the Bank consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both.

Amendments have been made to FASB ASC 810 Consolidation of Variable Interest Entities that impacts the Bank effective November 1, 2010. The new standard changes the approach for determining the primary beneficiary of a variable interest entity from a quantitative risk and reward model to a qualitative model, based on control and economics. The new standard also requires that the primary beneficiary analysis be reevaluated whenever circumstances change or at each reporting period, whichever is earlier. The Bank adopted the requirements of ASC 810 effective November 1, 2010.

Effective November 1, 2010, the Bank also prospectively adopted ASC Topic 860 (FAS 166) Transfers and Servicing. The new standard eliminates the concept of qualified special purpose entities (QSPE); therefore, all transfers of assets to QSPEs are within the scope of ASC Topic 860 and also within the scope of ASC Topic 810 for primary beneficiary assessment.

As a result of adopting ASC Topic 810, the Bank concluded that it is the primary beneficiary of the Bank-sponsored U.S.-based multi-seller conduit because the Bank is the variable interest holder with the power to direct the activities of the conduit that most significantly impact the conduit's economic performance and the Bank retains the obligation to absorb losses from the conduit. Therefore, the Bank consolidated this conduit that was not consolidated under Canadian GAAP and previous U.S. GAAP. As a result, as at November 1, 2010, the Bank recorded an increase in total assets of $2,954 million and total liabilities of $3,082 million, with an offsetting decrease in after-tax opening retained earnings and AOCI of $28 million and $100 million, respectively.

The consolidation of the Bank-sponsored U.S.-based multi-seller conduit resulted in an increase of $7 million in net income.

The cumulative impact as at October 31, 2011 was a decrease to retained earnings of $25 million.

The Bank also concluded that it consolidates the National Housing Act (NHA) MBS pools created under the NHA MBS program where it retains control over the pool. Control of the pools is retained when the Bank has the power over the economic performance of the pool. Previously the Bank's ownership interest in these pools was classified as AFS securities. The new guidance has resulted in a reclassification of certain pools where the Bank has retained control, from AFS securities to mortgage loans with a corresponding decrease in AOCI. As a result of the new standard, at November 1, 2010 mortgage loans increased by $16,215 million, AFS securities decreased by $16,670 million, other assets increased by $146 million and AOCI decreased by $309 million. At October 31, 2011, mortgage loans increased by $18,705 million, AFS securities decreased by $19,140 million, other assets increased by $141 million, liabilities increased by $2 million and AOCI decreased by $296 million.

### (b) Employee future benefits

U.S. GAAP requires: (i) the recognition of a pension and other post-retirement plan's over-funded or under-funded status as an asset or liability, respectively; and (ii) the recognition of existing unrecognized net actuarial gains and losses, prior service costs and credits, and net transitional assets or obligations in other comprehensive income. Canadian GAAP requires that only the cumulative difference between pension income/expense and funding contributions be reflected in the Bank's Consolidated Balance Sheet.

Although Canadian and U.S. GAAP are substantially consistent with respect to recognition and measurement of pension expense, there continues to be a difference in the charge to income between Canadian and U.S. GAAP, principally due to differences in the amortization of the transitional amounts resulting from differing adoption dates of the previous standards, and differences in the treatment of the pension valuation allowance.

Canadian GAAP requires recognition of a pension valuation allowance for any excess of the prepaid benefit expense over the expected future benefit. These changes in the pension valuation allowance are recognized in the Consolidated Statement of Income. U.S. GAAP does not permit recognition of a pension valuation allowance. The impact of this difference is a decrease in net income of $139 million (2010 – increase of $10 million).

Commencing in fiscal 2009, U.S. GAAP requires the measurement of defined benefit plan assets and obligations at the fiscal year-end date. The impact of the 2009 adoption of the requirement to measure defined benefit plan assets and obligations at the fiscal year-end date was an increase of $2 million to other assets, an increase of $22 million to other liabilities, a decrease of $32 million to retained earnings (net of income taxes is $24 million), and an increase of $6 million (net of income taxes is $4 million) in accumulated other comprehensive income.

The recognition differences, the reversal of the valuation allowance, and the measurement date change result in a decrease of $207 million (2010 – $82 million) in net income and a decrease of $345 million (2010 – $199 million) in retained earnings.

### (c) Restructuring costs

Under Canadian GAAP, restructuring costs incurred for activities initiated prior to April 1, 2003, were accrued as liabilities provided that

a restructuring plan detailing all major actions to be taken had been approved by an appropriate level of management, and significant changes to the plan were not likely. Under U.S. GAAP, for activities initiated prior to January 1, 2003, additional criteria were required to have been met prior to accrual, including that certain restructuring costs be incurred within one year from the date of approval of the restructuring plan; the accruals recorded under Canadian GAAP for certain planned restructuring costs not incurred within the one-year time limit were reversed under U.S. GAAP and the costs are expensed as incurred. For restructuring costs incurred for activities initiated after March 31, 2003, Canadian and U.S. GAAP are consistent.

The decrease in retained earnings of $4 million (2010 – $4 million) with an offset to goodwill captures the cumulative impact of the adjustment prior to harmonization.

### (d) Transfers of loans through securitizations

Effective July 1, 2001, the Bank adopted a new Canadian accounting guideline for transfers of loans on a prospective basis. This guideline is consistent with the U.S. standard for transfers of loans adopted on April 1, 2001.

Prior to the adoption of the new Canadian guideline, transfers of loans were treated as sales under Canadian GAAP when the significant risks and rewards of ownership were transferred. Gains on transfers of loans were recognized immediately, unless there was recourse to the Bank in excess of expected losses, in which case the gains were considered unrealized and deferred until they were collected in cash and there was no recourse to that cash. Under U.S. GAAP, gains on transfers of loans that qualify as sales are recognized in income at the time of sale. As a result, differences in Canadian and U.S. GAAP income will continue until the deferred gains related to assets securitized prior to July 1, 2001 have all been recognized in Canadian GAAP income, which occurred in fiscal 2010. The impact of such differences in 2011 is nil (2010 – decrease of $14 million).

Amendments have been made to the accounting for transfers of financial assets in FASB ASC Topic 860 Transfers and Servicing. The new standard eliminates the concept of QSPEs and provides additional guidance with regard to accounting for transfers of financial assets. This guidance also provides additional criteria and clarification of certain principles of sale accounting requirements in FASB Statement No. 140 – *Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities* (FAS 140) and requires an entity to determine first whether a special purpose entity (SPE) should be consolidated and then determine whether the transfer of financial assets meets the requirements for sale accounting. In addition, this new standard states that the transfer of a portion of financial assets may be accounted for as a sale only if it meets the definition of a participating interest. Otherwise, the transfer is accounted for as a secured borrowing. Adoption of this standard did not impact the Bank's accounting for mortgages sold under the Government of Canada's Canada Mortgage Bond (CMB) program. These mortgages meet the sale recognition criteria under both Canadian and U.S. GAAP.

As discussed above in note (a), the Bank does not consolidate MBS pools which it does not control. The Bank recognizes a gain on sale on mortgages sold into these pools which includes the beneficial interest that the Bank obtains in the MBS pools, as per ASC 860 requirements. The net impact of the change is an increase in net income of $19 million (2010 - nil) and an increase in the retained earnings of $14 million (2010 - nil).

### (e) Derivative instruments and hedging activities

Canadian GAAP, as described in Note 1, is substantially consistent with U.S. GAAP for the Bank's activities relating to derivatives and hedging. The current year reconciling items between Canadian and U.S. GAAP mainly relate to the classification of certain guarantees resulting in a increase in net income of $143 million (2010 – decrease $95 million) as well as hedging differences resulting in a decrease to net income of $2 million (2010 – $29 million).

Prior to August 1, 2010, U.S. GAAP did not require bifurcation of credit-related embedded derivatives in synthetic collateralized debt obligation (CDO) structures. As a result, changes in fair value of these embedded derivatives from November 1, 2009 to July 31, 2010 were reclassified from net income to other comprehensive income as a reconciling item between Canadian GAAP and U.S. GAAP.

Effective August 1, 2010, U.S. GAAP required the bifurcation of credit-related embedded derivatives in such CDO structures. The change in fair value of the embedded derivatives to be recognized in income is consistent with Canadian GAAP. The cumulative transition impact of the U.S. GAAP amendment as at August 1, 2010, was an after-tax loss of $23 million (net of income taxes of $9 million) that was reclassified from accumulated other comprehensive income to retained earnings.

The total net impact of the differences related to derivative instruments and hedging activities result in a increase of $141 million (2010 – decrease of $124 million) in net income.

The decrease in retained earnings of $79 million (2010 – $172 million) is comprised of the impact of the classification of certain financial guarantees (a decrease of $139 million (2010 – $231 million)), partially offset by the impact of the bifurcation of credit-related embedded derivatives in CDO structures and foreign currency translation.

### (f) Classification and Impairment of financial instruments

Effective November 1, 2008, under Canadian GAAP certain debt instruments that are not quoted in an active market were reclassified to loans and are carried at amortized cost. Impairment on these assets is recognized only to the extent of incurred credit losses. U.S. GAAP precludes securities from being classified as loans. As a result, certain debt securities which are classified as loans under Canadian GAAP of $4,114 million (2010 – $6,483 million) are classified as available-for-sale under U.S. GAAP. This resulted in a balance sheet reconciling item between loans, available-for-sale debt securities, and other comprehensive income.

Effective May 1, 2009, under U.S. GAAP, certain impaired available-for-sale debt instruments are written down to the extent of incurred credit losses. Under Canadian GAAP, impaired available-for-sale debt instruments are written down to fair value. As the Bank's available-for-sale debt securities under Canadian GAAP contains a limited number of impairment write-downs, effectively for credit-related losses, this U.S. GAAP change had no impact on the Bank.

### (g) Securities

Except as discussed in (e), Canadian GAAP is substantially harmonized with U.S. GAAP for the Bank's activities relating to the accounting for securities. The significant differences between Canadian and U.S. GAAP for fiscal 2008 and prior years are described below.

Under Canadian GAAP, securities are accounted for on a settlement date basis. Under U.S. GAAP, securities are required to be accounted for on a trade date basis.

Under Canadian GAAP, debt securities acquired in a loan restructuring prior to May 1, 2003 were recorded at net book value. Under U.S. GAAP, the debt securities are recorded at their fair value with the difference between the carrying value of the loans and the fair value of the debt securities acquired recorded in income. For debt securities acquired in a loan restructuring after April 30, 2003, Canadian and U.S. GAAP are consistent. The impact of this difference is an increase in net income of $20 million (2010 – $66 million).

The decrease in retained earnings of $36 million (2010 – $49 million) is the cumulative impact of recording debt securities acquired in a loan restructuring at fair value prior to harmonization.

Prior to fiscal 2007, certain securities with embedded derivatives were reclassified from available-for-sale to trading securities. Under Canadian GAAP, these securities were classified as available-for-sale securities.

Canadian GAAP was amended in October 2008 allowing a reclassification of non-derivative financial assets out of the trading category under rare circumstances. The Bank reclassified certain trading securities to available-for-sale securities effective August 1, 2008, as permitted under Canadian GAAP. Under U.S. GAAP, this reclassification was effective October 31, 2008. The net impact of this difference is an increase in net income of $3 million (2010 – $57 million).

The decrease in retained earnings of $17 million (2010 – $20 million) is the net cumulative impact of reclassifying certain securities with embedded derivatives to trading securities.

### (h) Computer software

U.S. GAAP requires qualifying software costs to be capitalized and depreciated over the useful life of the software. Prior to November 1, 2003, these costs were expensed as incurred under Canadian GAAP. For software costs incurred after November 1, 2003, Canadian and U.S. GAAP are consistent. The impact of this difference is a decrease in net income of $3 million (2010 – $3 million).

The increase in retained earnings of $9 million (2010 – $11 million) is the cumulative impact of the adjustment prior to harmonization.

### (i) Stock-based compensation

Effective November 1, 2005, the Bank adopted, on a modified prospective basis, a new U.S. GAAP standard amending the accounting for stock-based compensation to new awards and to any awards modified, repurchased or cancelled after the effective date. The prospective adoption of the standard requires the use of a fair-value-based method, rather than an intrinsic-value-based method, to measure and account for the cost of employee services received in exchange for an award linked to the Bank's common shares. The greatest impact was on the Bank's employee stock option plan.

The U.S. GAAP stock-based compensation expense was quantified using the Black-Scholes option pricing model and the following weighted average assumptions:

| As at | **October 31, 2011** | October 31, 2010 |
|---|---|---|
| Risk-free interest rate | 1.21% | 1.63% |
| Expected dividend yield | 3.83% | 3.52% |
| Expected price volatility | 23.0% | 27.3% |
| Expected life of option | 6.6 years | 6.4 years |

Under Canadian GAAP, the Bank uses an intrinsic-value-based method to record stock-based compensation expense for all liability classified awards. Effective November 1, 2005, the Bank adopted a new pronouncement amending the accounting for stock-based compensation for employees eligible to retire before the vesting date and permitted application on a retrospective basis. There was also a corresponding change in U.S. GAAP; however, this change was required to be applied prospectively under U.S. GAAP for awards granted in fiscal 2006 and onwards. The net impact of the differences results in an increase of $10 million (2010 – $31 million) in net income.

The cumulative impact of these adjustments is a decrease in retained earnings of $8 million (2010 – $15 million).

### (j) Liabilities and equity

Under Canadian GAAP, as at October 31, 2010 the Scotiabank Trust Securities issued by BNS Capital Trust of $500 million were classified as capital instrument liabilities. These securities were redeemed during fiscal 2011. The related payments of $6 million (2010 – $37 million) are recognized as interest expense. Under U.S. GAAP, these securities with conversion or conditional redemption features are recorded as non-controlling interests in subsidiaries. The related payments are recognized as net income attributable to non-controlling interests.

### (k) Non-cash collateral

Under Canadian GAAP, non-cash collateral received as part of securities lending transactions is not recognized in the Consolidated Balance Sheet. Under U.S. GAAP, collateral received for transactions where the Bank lends securities as principal is accounted for as a secured borrowing in the Consolidated Balance Sheet.

The adjustment for non-cash collateral received in securities lending transactions resulted in an addition to other assets of $6,046 million (2010 – $6,211 million) and an addition to other liabilities of $6,046 million (2010 – $6,211 million).

### (l) Comprehensive income

Both Canadian and U.S. GAAP require a separate Statement of Comprehensive Income. The reconciling items between other comprehensive income under Canadian and U.S. GAAP mainly result from changes in assets and liabilities relating to consolidation of variable interest entities, employee future benefits, transfers of loans through securitizations, bifurcation of embedded derivatives in synthetic CDOs, and certain debt securities classified as loans. These reconciling items are further discussed in (a), (b), (d), (e) and (f).

### (m) Business combinations

Effective November 1, 2010, the Bank elected for Canadian GAAP purposes to early adopt the new accounting standard on Business Combinations (see Note 1). This standard is more aligned with U.S. GAAP.

Effective November 1, 2009, the Bank adopted for U.S. GAAP purposes, FASB ASC Topic 805 Business Combinations. This standard requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value as at the acquisition date and all acquisition related and restructuring costs to be expensed. Negative goodwill which represents any excess of recognized assets, liabilities and non-controlling interests over the purchase consideration, is to be recognized in net income. Under Canadian GAAP prior to November 1, 2010, acquisition related and restructuring costs were capitalized as part of the purchase consideration. Negative goodwill is first applied to reduce intangible and fixed assets to nil, with any residual being recognized in net income.

Under U.S. GAAP, for the year ended October 31, 2011 the increase in net income of $5 million was primarily due to the recognition of negative goodwill arising from the finalization of a purchase price equation in relation to an acquisition prior to November 1, 2010. For the year ended October 31, 2010, the decrease in net income of $6 million was primarily due to acquisition-related costs being expensed as incurred.

The increase in retained earnings of $1 million (2010 – decrease of $5 million) is the cumulative impact of recognizing negative goodwill in net income, net of expensing acquisition related cost as incurred.

### (n) Income taxes

On November 1, 2007, the Bank adopted, for U.S. GAAP purposes, Accounting for Uncertainty in Income Taxes in FASB ASC Topic 740 Income Taxes. The Standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken on a tax return.

The Standard uses a two-step approach for evaluating tax positions: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized; and 2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with the U.S. GAAP model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

The adoption of Accounting for Uncertainty in Income Taxes in FASB ASC Topic 740 had no material impact on 2008 opening retained earnings under U.S. GAAP. The amount of unrecognized tax benefits as at November 1, 2010 was $615 million. There was a net $269 million decrease during 2011 substantially from a settlement of prior periods and tax positions taken during the current period. The 2011 balance of $346 million of unrecognized tax benefits, if recognized, would affect the effective tax rate. The Bank operates in Canada, the U.S. and other foreign jurisdictions, subject to examination by tax authorities.

### (o) Equity accounted investments

Under Canadian GAAP, for equity accounted investments, the Bank applies equity accounting prospectively from the date it has obtained significant influence. Under U.S. GAAP, the investment, results of operations, and retained earnings of the investor is adjusted retrospectively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the investment was held. The impact of the adjustment was nil (2010 – increase of $23 million) to net income.

The increase of $20 million (2010 – $20 million) in retained earnings is the cumulative impact of the adjustment.

### (p) Non-controlling interests

Effective November 1, 2010, when the Bank elected for Canadian GAAP purposes to early adopt the new accounting standard on Business Combinations, the Bank was also required to adopt the new accounting standards on Consolidated Financial Statements and Non-controlling Interests (see Note 1). These standards are more aligned with U.S. GAAP.

Effective November 1, 2009, the Bank adopted for U.S. GAAP purposes, FASB ASC Topic 810 Consolidations. This standard requires non-controlling interests in subsidiaries to be classified as a separate component of equity. For the year ended October 31, 2010, non-controlling interests of $579 million has been reclassified from liabilities to equity.

In addition, under U.S. GAAP effective November 1, 2009, purchases of equity interests that do not result in a change in control are accounted for as equity transactions. Goodwill is not affected. Under Canadian GAAP prior to November 1, 2010, increases in ownership interest of an acquiree where control has already been obtained were accounted for under the purchase method. Goodwill is proportionately adjusted based on the percentage purchased.

The decrease in equity of $23 million (2010 – $23 million) is a result of accounting for equity interests with no change in control as equity transactions.

Net income and comprehensive income based on U.S. GAAP attributable to non-controlling interests of $99 million (2010 – $137 million) is presented separately on the reconciliations of net income and comprehensive income.

## Consolidated statement of comprehensive income (loss)

| For the year ended October 31 ($ millions) | 2011 Canadian GAAP | 2011 Adjustments(l) | 2011 U.S. GAAP | 2010 | 2009 |
|---|---|---|---|---|---|
| Net income | **$ 5,268** | **$ (3)** | **$ 5,265** | $ 4,305 | $ 3,323 |
| Other comprehensive income (loss), net of income taxes: | | | | | |
| Change in unrealized foreign currency translation gains (losses), net of hedging activities[1] | **$ (654)** | **$ 4** | **$ (650)** | $ (593) | $(1,739) |
| Change in unrealized gains (losses) on available-for-sale securities, net of hedging activities[2] | **(119)** | **81** | **(38)** | 291 | 1,303 |
| Change in gains (losses) on derivative instruments designated as cash flow hedges[3] | **106** | **(2)** | **104** | 62 | 43 |
| Change in pension asset and liability[4] | **-** | **33** | **33** | (322) | (548) |
| Total other comprehensive income (loss) | **$ (667)** | **$ 116** | **$ (551)** | $ (562) | $ (941) |
| Comprehensive income | **$ 4,601** | **$ 113** | **$ 4,714** | $ 3,743 | $ 2,382 |
| Comprehensive income attributable to: | | | | | |
| Common shareholders of the Bank | **$ 4,292** | **$ 107** | **$ 4,399** | $ 3,405 | $ 2,045 |
| Preferred shareholders of the Bank | **216** | **-** | **216** | 201 | 186 |
| Non-controlling interests (p) | **93** | **6** | **99** | 137 | 151 |
| Comprehensive income | **$ 4,601** | **$ 113** | **$ 4,714** | $ 3,743 | $ 2,382 |

## Accumulated other comprehensive income (loss)[5]

| For the year ended October 31 ($ millions) | 2011 Canadian GAAP | 2011 Adjustments | 2011 U.S. GAAP | 2010 | 2009 |
|---|---|---|---|---|---|
| Unrealized foreign currency translation gains (losses), net of hedging activities | **$(5,162)** | **$ (43)** | **$(5,205)** | $(4,555) | $(3,962) |
| Unrealized gains (losses) on available-for-sale securities, net of hedging activities | **699** | **(511)** | **188** | 635 | 321 |
| Derivative instruments designated as cash flow hedges | **(255)** | **(1)** | **(256)** | (360) | (422) |
| Employee future benefits | **-** | **(1,084)** | **(1,084)** | (1,117) | (795) |
| Total accumulated other comprehensive income (loss) | **$(4,718)** | **$(1,639)** | **$(6,357)** | $(5,397) | $(4,858) |

(1) U.S. GAAP amounts are net of income tax expense of $37 (2010 – expense of $117; 2009 – expense of $328).
(2) U.S. GAAP amounts are net of income tax benefit of $3 (2010 – expense of $98; 2009 – expense of $570).
(3) U.S. GAAP amounts are net of income tax expense of $42 (2010 – expense of $46; 2009 – expense of $44).
(4) U.S. GAAP amounts are net of income tax expense of $18 (2010 – benefit of $181; 2009 – benefit of $290).
(5) All amounts presented are net of income tax.

## Condensed consolidated balance sheet

| As at October 31 ($ millions) | 2011 Canadian GAAP | 2011 Adjustments | 2011 U.S. GAAP | 2010 Canadian GAAP | 2010 Adjustments | 2010 U.S. GAAP |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash resources | **$ 54,471** | **$ –** | **$ 54,471** | $ 46,027 | $ – | $ 46,027 |
| Securities | | | | | | |
| Trading | **63,327** | **(692)[g]** | **62,635** | 64,684 | 895 [g] | 65,579 |
| Available-for-sale | **52,055** | **(13,865)[a,d,f,g]** | **38,190** | 47,228 | 6,097 [f,g] | 53,325 |
| Equity accounted investments | **4,491** | **23[o]** | **4,514** | 4,651 | 23 [o] | 4,674 |
| Securities purchased under resale agreements | **34,582** | **–** | **34,582** | 27,920 | – | 27,920 |
| Loans | **298,702** | **16,404[a,f]** | **315,106** | 284,224 | (6,483)[f] | 277,741 |
| Derivative instruments | **37,208** | **231[a,e]** | **37,439** | 26,852 | 111 [e] | 26,963 |
| Other | **30,420** | **10,416[(5)]** | **40,836** | 25,071 | 10,831 [(1)] | 35,902 |
| | **$ 575,256** | **$ 12,517** | **$ 587,773** | $ 526,657 | $ 11,474 | $ 538,131 |
| **Liabilities and shareholders' equity** | | | | | | |
| **Liabilities** | | | | | | |
| Deposits | **$ 396,376** | **$ 3,459[a,e]** | **$ 399,835** | $ 361,650 | $ 4 [e] | $ 361,654 |
| Derivative instruments | **40,889** | **–** | **40,889** | 31,990 | – | 31,990 |
| Other | **98,668** | **11,190[(6)]** | **109,858** | 98,368 | 13,272 [(2)] | 111,640 |
| Non-controlling interest in subsidiaries | **–** | **–** | **–** | 579 | (579)[p] | – |
| Subordinated debentures | **5,923** | **–** | **5,923** | 5,939 | – | 5,939 |
| Capital instrument liabilities | **–** | **–** | **–** | 500 | (500)[j] | – |
| | **$ 541,856** | **$ 14,649** | **$ 556,505** | $ 499,026 | $ 12,197 | $ 511,223 |
| **Shareholders' equity** | | | | | | |
| Capital stock | | | | | | |
| Preferred shares | **$ 4,384** | **$ –** | **$ 4,384** | $ 3,975 | $ – | $ 3,975 |
| Common shares and contributed surplus | **8,432** | **–** | **8,432** | 5,775 | – | 5,775 |
| Retained earnings | **24,662** | **(470)[(7)]** | **24,192** | 21,932 | (433)[(3)] | 21,499 |
| Accumulated other comprehensive income (loss) | **(4,718)** | **(1,639)[(8)]** | **(6,357)** | (4,051) | (1,346)[(4)] | (5,397) |
| Changes in ownership interest in a subsidiary after control is obtained | **–** | **(23)[p]** | **(23)** | – | (23)[p] | (23) |
| Non-controlling interest in subsidiaries | **640** | **–** | **640** | – | 1,079 [j,p] | 1,079 |
| | **$ 33,400** | **$ (2,132)** | **$ 31,268** | $ 27,631 | $ (723) | $ 26,908 |
| | **$ 575,256** | **$ 12,517** | **$ 587,773** | $ 526,657 | $ 11,474 | $ 538,131 |

Note references refer to GAAP differences described above.
(1) Refer to b, c, d, e, f, g, h, k, m, p
(2) Refer to b, d, e, g, i, k, m, o
(3) Refer to b, c, e, g, h, i, m, o
(4) Refer to b, e, f, g, l
(5) Refer to a, b, c, d, e, f, g, h, k, m, p
(6) Refer to a, b, d, e, g, i, k, m, o
(7) Refer to a, b, c, d, e, g, h, i, m, o
(8) Refer to a, b, d, e, f, g, l

## Future accounting changes

### When to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts

In December 2010, FASB issued guidance ASU 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force).* This update modifies step one of goodwill impairment testing for reporting units with zero or negative carrying amounts. Under Topic 350 on goodwill and other intangible assets, testing for goodwill impairment is a two-step test. For units with zero or negative carrying amounts, the update clarifies that an entity is only required to perform step two of the goodwill impairment process where it is more likely than not that a goodwill impairment exists. This update is effective for the Bank prospectively on November 1, 2011. The Bank is assessing the impact of this change.

### Disclosure of supplementary pro forma information for business combination

In December 2010, FASB issued guidance ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force).* This amendment clarifies the acquisition date that should be used for reporting the pro forma financial information disclosures in Topic 805 when comparative financial statements are presented and requires additional quantitative information about the pro forma adjustments. This update is effective for the Bank prospectively on November 1, 2011. The Bank is assessing the impact of this change.

### Repurchase agreements

In April 2011, FASB issued guidance ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. ASU 2011-03 states that the accounting for a repurchase agreement (repo) depends in part on whether the transferor maintains effective control over the transferred financial assets. If the transferor maintains effective control, the transferor is required to account for its repo as a secured borrowing rather than a sale. The FASB concluded that the assessment of effective control depends on the transferor's contractual rights and obligations with respect to transferred financial assets. It does not depend on the transferor's ability, by way of a collateral maintenance agreement, to exercise those rights or honor those obligations. This update is effective for the Bank prospectively on November 1, 2012. The Bank is assessing the impact of this change.

# Principal Subsidiaries[1]

| As at October 31, 2011 ($ millions) | Principal office | Carrying value of shares |
|---|---|---|
| **Canadian** | | |
| BNS Investments Inc. | Toronto, Ontario | $11,259 |
| Montreal Trust Company of Canada | Montreal, Quebec | |
| Scotia Merchant Capital Corporation | Toronto, Ontario | |
| Dundee Bank of Canada | Toronto, Ontario | $ 752 |
| DundeeWealth Inc. | Toronto, Ontario | $ 3,571 |
| National Trustco Inc. | Toronto, Ontario | $ 601 |
| The Bank of Nova Scotia Trust Company | Toronto, Ontario | |
| National Trust Company | Stratford, Ontario | |
| RoyNat Inc. | Toronto, Ontario | $ 19 |
| Scotia Asset Management L.P. | Toronto, Ontario | $ 322 |
| Scotia Capital Inc. | Toronto, Ontario | $ 421 |
| Scotia Dealer Advantage Inc. | Burnaby, British Columbia | $ 150 |
| Scotia Insurance Agency Inc. | Toronto, Ontario | $ 2 |
| Scotia Life Insurance Company | Toronto, Ontario | $ 109 |
| Scotia Mortgage Corporation | Toronto, Ontario | $ 307 |
| Scotia Securities Inc. | Toronto, Ontario | $ 46 |
| Scotiabank Capital Trust[2] | Toronto, Ontario | $ 22 |
| Scotiabank Subordinated Notes Trust[2] | Toronto, Ontario | $ 8 |
| Scotiabank Tier 1 Trust[2] | Toronto, Ontario | $ 4 |
| **International** | | |
| The Bank of Nova Scotia Berhad | Kuala Lumpur, Malaysia | $ 240 |
| The Bank of Nova Scotia International Limited | Nassau, Bahamas | $ 9,580 |
| BNS (Colombia) Holdings Limited (99.9%) | Nassau, Bahamas | |
| Scotiabank Caribbean Treasury Limited | Nassau, Bahamas | |
| BNS International (Barbados) Limited | Warrens, Barbados | |
| Grupo BNS de Costa Rica, S.A. | San Jose, Costa Rica | |
| The Bank of Nova Scotia Asia Limited | Singapore | |
| The Bank of Nova Scotia Trust Company (Bahamas) Limited | Nassau, Bahamas | |
| Scotiabank & Trust (Cayman) Ltd. | Grand Cayman, Cayman Islands | |
| Scotia Insurance (Barbados) Limited | Warrens, Barbados | |
| Scotiabank (Bahamas) Limited | Nassau, Bahamas | |
| Scotiabank (Belize) Ltd. | Belize City, Belize | |
| Scotiabank (British Virgin Islands) Limited | Road Town, Tortola, B.V.I. | |
| Scotiabank (Hong Kong) Limited | Hong Kong, China | |
| Scotiabank (Ireland) Limited | Dublin, Ireland | |
| Scotiabank (Turks and Caicos) Ltd. | Providenciales, Turks and Caicos Islands | |
| Grupo Financiero Scotiabank Inverlat, S.A. de C.V. (97.3%) | Mexico, D.F., Mexico | $ 2,225 |
| Nova Scotia Inversiones Limitada | Santiago, Chile | $ 2,177 |
| Scotiabank Chile, S.A. (99.5%) | Santiago, Chile | |
| Scotia Capital (Europe) Limited | London, England | $ 79 |
| Scotia Capital (USA) Inc. | New York, New York | [3] |
| Scotia Group Jamaica Limited (71.8%) | Kingston, Jamaica | $ 504 |
| The Bank of Nova Scotia Jamaica Limited | Kingston, Jamaica | |
| Scotia Investments Jamaica Limited (77.0%) | Kingston, Jamaica | |
| Scotia Holdings (US) Inc. | Houston, Texas | [4] |
| The Bank of Nova Scotia Trust Company of New York | New York, New York | |
| Scotiabanc Inc. | Houston, Texas | |
| Scotia International Limited | Nassau, Bahamas | $ 745 |
| Scotiabank Anguilla Limited | The Valley, Anguilla | |
| Scotiabank Brasil S.A. Banco Multiplo | Sao Paulo, Brazil | $ 155 |
| Scotiabank de Puerto Rico | Hato Rey, Puerto Rico | $ 798 |
| Scotiabank El Salvador, S.A. (99.5%) | San Salvador, El Salvador | $ 406 |
| Scotiabank Europe plc | London, England | $ 1,847 |
| Scotiabank Peru S.A.A. (97.7%) | Lima, Peru | $ 2,016 |
| Scotiabank Trinidad and Tobago Limited (50.9%) | Port of Spain, Trinidad and Tobago | $ 233 |

(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.

# Shareholder Information

## Annual Meeting
Shareholders are invited to attend the 180th Annual Meeting of Holders of Common Shares, to be held on April 3, 2012, at TCU Place Arts and Convention Centre, 35 - 22nd Street East, Saskatoon, Saskatchewan, Canada, beginning at 10:00 a.m. (local time).

## Shareholdings and Dividends
Information regarding your shareholdings and dividends may be obtained by contacting the transfer agent.

## Direct Deposit Service
Shareholders may have dividends deposited directly into accounts held at financial institutions which are members of the Canadian Payments Association. To arrange direct deposit service, please write to the transfer agent.

## Dividend and Share Purchase Plan
Scotiabank's dividend reinvestment and share purchase plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage or administrative fees. As well, eligible shareholders may invest up to $20,000 each fiscal year to purchase additional common shares of the Bank. Debenture holders may apply interest on fully registered Bank subordinated debentures to purchase additional common shares. All administrative costs of the plan are paid by the Bank. For more information on participation in the plan, please contact the transfer agent.

## Listing of Shares
Common shares of the Bank are listed for trading on the Toronto and New York stock exchanges.

Series 12, Series 13, Series 14, Series 15, Series 16, Series 17, Series 18, Series 20, Series 22, Series 24, Series 26, Series 28, Series 30 and Series 32 preferred shares of the Bank are listed on the Toronto Stock Exchange.

## Stock Symbols

| STOCK | TICKER SYMBOL | CUSIP NO. |
|---|---|---|
| Common shares | BNS | 064149 10 7 |
| Series 12, Preferred | BNS.PR.J | 064149 81 8 |
| Series 13, Preferred | BNS.PR.K | 064149 79 2 |
| Series 14, Preferred | BNS.PR.L | 064149 78 4 |
| Series 15, Preferred | BNS.PR.M | 064149 77 6 |
| Series 16, Preferred | BNS.PR.N | 064149 76 8 |
| Series 17, Preferred | BNS.PR.O | 064149 75 0 |
| Series 18, Preferred | BNS.PR.P | 064149 74 3 |
| Series 20, Preferred | BNS.PR.Q | 064149 72 7 |
| Series 22, Preferred | BNS.PR.R | 064149 69 3 |
| Series 24, Preferred | BNS.PR.S | 064149 13 1 |
| Series 26, Preferred | BNS.PR.T | 064149 67 7 |
| Series 28, Preferred | BNS.PR.X | 064149 65 1 |
| Series 30, Preferred | BNS.PR.Y | 064149 63 6 |
| Series 32, Preferred | BNS.PR.Z | 064149 61 0 |

## Dividend Dates for 2012
Record and payment dates for common and preferred shares, subject to approval by the Board of Directors.

| RECORD DATE | PAYMENT DATE |
|---|---|
| January 3 | January 27 |
| April 3 | April 26 |
| July 3 | July 27 |
| October 2 | October 29 |

## Future Annual Meeting
The Annual Meeting for the fiscal year 2012 is scheduled for April 9, 2013, in Halifax, Nova Scotia, Canada.

## Valuation Day Price
For Canadian income tax purposes, The Bank of Nova Scotia's common stock was quoted at $31.13 per share on Valuation Day, December 22, 1971. This is equivalent to $2.594 after adjusting for the two-for-one stock split in 1976, the three-for-one stock split in 1984, and the two-for-one stock split in 1998. The stock dividend in 2004 did not affect the Valuation Day amount. The stock received as part of the 2004 stock dividend is not included in the pre-1972 pool.

## Duplicated Communication
Some registered holders of The Bank of Nova Scotia shares might receive more than one copy of shareholder mailings, such as this Annual Report. Every effort is made to avoid duplication; however, if you are registered with different names and/or addresses, multiple mailings may result. If you receive, but do not require, more than one mailing for the same ownership, please contact the transfer agent to combine the accounts.

## Credit Ratings

### SENIOR LONG-TERM DEBT/DEPOSITS

| | |
|---|---|
| DBRS | AA |
| Fitch | AA - |
| Moody's | Aa1 |
| Standard & Poor's | AA - |

### SHORT TERM DEPOSITS/COMMERCIAL PAPER

| | |
|---|---|
| DBRS | R-1(high) |
| Fitch | F1+ |
| Moody's | P-1 |
| Standard & Poor's | A-1+ |

### SUBORDINATED DEBT

| | |
|---|---|
| DBRS | AA(low) |
| Fitch | A+ |
| Moody's | Aa2 |
| Standard & Poor's | A+ |

### PREFERRED SHARES

| | |
|---|---|
| DBRS | Pfd-1(low) |
| Moody's | A3 |
| Standard & Poor's | A / P-1(low) |

# Glossary

Allowance for Credit Losses: An allowance set aside which, in management's opinion, is adequate to absorb all credit-related losses from on and off-balance sheet items. It includes specific, sectoral and general allowances.

Assets Under Administration and Management: Assets owned by customers, for which the Bank provides management and custodial services. These assets are not reported on the Bank's consolidated balance sheet.

Bankers' Acceptances (BAs): Negotiable, short-term debt securities, guaranteed for a fee by the issuer's bank.

Basis Point: A unit of measure defined as one-hundredth of one per cent.

Capital: Consists of common shareholders' equity, non-cumulative preferred shares, capital instrument liabilities, non-controlling interest and subordinated debentures. It can support asset growth, provide against loan losses and protect depositors.

Capital Instrument Liability: A financial instrument, normally qualifying as regulatory capital, that has the potential for being settled for a variable number of the Bank's own equity instruments.

Derivative Products: Financial contracts whose value is derived from an underlying price, interest rate, exchange rate or price index. Forwards, options and swaps are all derivative instruments.

Fair Value: The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Foreign Exchange Contracts: Commitments to buy or sell a specified amount of foreign currency on a set date and at a predetermined rate of exchange.

Forward Rate Agreement (FRA): A contract between two parties, whereby a designated interest rate, applied to a notional principal amount, is locked in for a specified period of time. The difference between the contracted rate and prevailing market rate is paid in cash on the settlement date. These agreements are used to protect against, or take advantage of, future interest rate movements.

Futures: Commitments to buy or sell designated amounts of commodities, securities or currencies on a specified date at a predetermined price. Futures are traded on recognized exchanges. Gains and losses on these contracts are settled daily, based on closing market prices.

General Allowance: Established by the Bank to recognize credit losses which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual item-by-item basis.

Hedging: Protecting against price, interest rate or foreign exchange exposures by taking positions that are expected to react to market conditions in an offsetting manner.

Impaired Loans: Loans on which the Bank no longer has reasonable assurance as to the timely collection of interest and principal, or where a contractual payment is past due a prescribed period. Interest is not accrued on impaired loans.

Marked-To-Market: The valuation of certain financial instruments at fair value as of the balance sheet date.

Net Interest Margin: Net interest income, on a taxable equivalent basis, expressed as a percentage of average total assets.

Notional Principal Amounts: The contract or principal amounts used to determine payments for certain off-balance sheet instruments, such as FRAs, interest rate swaps and cross-currency swaps. The amounts are termed "notional" because they are not usually exchanged themselves, serving only as the basis for calculating amounts that do change hands.

Off-Balance Sheet Instruments: These are indirect credit commitments, including undrawn commitments to extend credit and derivative instruments.

Options: Contracts between buyer and seller giving the buyer of the option the right, but not the obligation, to buy (call) or sell (put) a specified commodity, financial instrument or currency at a set price or rate on or before a specified future date.

OSFI: The Office of the Superintendent of Financial Institutions Canada, the regulator of Canadian banks.

Productivity Ratio: Measures the efficiency with which the Bank incurs expenses to generate revenue. It expresses non-interest expenses as a percentage of the sum of net interest income on a taxable equivalent basis and other income. A lower ratio indicates improved productivity.

Repos: Repos is short for "obligations related to assets sold under repurchase agreements" – a short-term transaction where the Bank sells assets, normally government bonds, to a client and simultaneously agrees to repurchase them on a specified date and at a specified price. It is a form of short-term funding.

Return on Equity (ROE): Net income attributable to common shareholders, expressed as a percentage of average common shareholders' equity.

Reverse Repos: Short for "assets purchased under resale agreements" – a short-term transaction where the Bank purchases assets, normally government bonds, from a client and simultaneously agrees to resell them on a specified date and at a specified price. It is a form of short-term collateralized lending.

Risk-Weighted Assets: Credit risk-risk weighted assets calculated using formulas specified by the Basel framework which are based on the degree of credit risk for each class of counterparty. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before the appropriate risk measurements are applied. The Bank uses both internal models and standardized approaches to calculate market risk capital and standardized approach to calculate operational risk capital. These capital requirements are converted to risk-weighted assets equivalent by multiplying by a 12.5 factor.

Securitization: The process by which financial assets (typically loans) are transferred to a trust, which normally issues a series of different classes of asset-backed securities to investors to fund the purchase of loans. The Bank normally accounts for these transfers as a sale, provided certain conditions are met, and accordingly, the loans are removed from the consolidated balance sheet.

Standby Letters of Credit and Letters of Guarantee: Assurances given by the Bank that it will make payments on behalf of clients to third parties. The Bank has recourse against its clients for any such advanced funds.

Structured Credit Instruments: A wide range of financial products which includes Collateralized Debt Obligations, Collateralized Loan Obligations, Structured Investment Vehicles, and Asset-Backed Securities. These instruments represent investments in pools of credit-related assets, whose values are primarily dependent on the performance of the underlying pools.

Swaps: Interest rate swaps are agreements to exchange streams of interest payments, typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over pre-determined periods of time.

Tangible Common Equity Ratio: The tangible common equity (TCE) ratio is a ratio of TCE to risk-weighted assets. The level of tangible common equity 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, goodwill and unamortized intangible assets (net of taxes).

Taxable Equivalent Basis (TEB): The grossing up of tax-exempt income earned on certain securities to an equivalent before-tax basis. This ensures uniform measurement and comparison of net interest income arising from both taxable and tax-exempt sources.

Tier 1 And Total Capital Ratios: These are ratios of capital to risk-weighted assets, as stipulated by OSFI, based on guidelines developed under the auspices of the Bank for International Settlements (BIS). Tier 1 capital, the more permanent, consists primarily of common shareholders' equity, non-controlling interest in subsidiaries, capital instrument liabilities plus non-cumulative preferred shares, less goodwill and ineligible unamortized intangible assets. Tier 2 capital consists mainly of subordinated debentures and the eligible general allowance. Together, Tier 1 and Tier 2 capital less certain deductions comprise total regulatory capital.

Value At Risk (VaR): An estimate of the potential loss that might result from holding a position for a specified period of time, with a given level of statistical confidence.

Variable Interest Entity: An entity where its equity at risk is insufficient to permit the financing of its activities on a stand-alone basis or where its equity investors, as a group, lack certain essential characteristics of a controlling financial interest.

Yield Curve: A graph showing the term structure of interest rates, plotting the yields of similar quality bonds by term to maturity.

# Basel II Glossary

## Credit Risk Parameters

Exposure at Default (EAD): Generally represents the expected gross exposure – outstanding amount for on-balance sheet exposure and loan equivalent amount for off-balance sheet exposure.

Probability of Default (PD): Measures the likelihood that a borrower will default within a one-year time horizon, expressed as a percentage.

Loss Given Default (LGD): Measures the severity of loss on a facility in the event of a borrower's default, expressed as a percentage of exposure at default.

## Exposure Types

### Non-retail

Corporate: Defined as a debt obligation of a corporation, partnership, or proprietorship.

Bank: Defined as a debt obligation of a bank or bank equivalent (including certain public sector entities (PSEs) treated as bank equivalent exposures).

Sovereign: Defined as a debt obligation of a sovereign, central bank, certain multi-development banks (MDBs) and certain PSEs treated as sovereign.

Securitization: On-balance sheet investments in asset-backed securities, mortgage backed securities, collateralized loan obligations and collateralized debt obligations, off-balance sheet liquidity lines to Bank's own sponsored and third-party conduits, and credit enhancements.

### Retail

#### Real Estate Secured

Residential Mortgage: Loans to individuals against residential property (four units or less).

Secured Lines Of Credit: Revolving personal lines of credit secured by residential real estate.

Qualifying Revolving Retail Exposures (QRRE): Credit cards and unsecured line of credit for individuals.

Other Retail: All other personal loans.

### Exposure Sub-types

Drawn: Outstanding amounts for loans, leases, acceptances, deposits with banks and available-for-sale debt securities.

Undrawn: Unutilized portion of an authorized committed credit lines.

### Other Exposures

Repo-Style transactions: Reverse repurchase agreements (reverse repos) and repurchase agreements (repos), securities lending and borrowing.

OTC derivatives: Over-the-counter derivatives contracts.

Other off-balance sheet: Direct credit substitutes, such as standby letters of credits and guarantees, trade letters of credits, and performance letters of credits and guarantees.

## ADDITIONAL INFORMATION

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CSR OBJECTIVE STATEMENT

Scotiabank helps to build bright futures worldwide through ethical banking practices, environmental awareness and a commitment to communities.

The Bank's CSR strategy is built on a solid foundation of key principles:

### Corporate governance
The Board of Directors is ultimately accountable for the Bank's actions and results.

### Customers
Scotiabank's core purpose is to help customers become financially better off.

### Employees
Scotiabank aims to provide a place for talented employees to thrive.

### Environment
Scotiabank measures and reports on environmental impacts.

### Communities
Through the Bright Future program, Scotiabank contributes to communities and causes across the globe.

# Corporate social responsibility

## – fundamental to how Scotiabank does business

Corporate social responsibility (CSR) is an integral part of how Scotiabank does business across every country where we live and work. It is one way that the Bank builds better relationships with all stakeholders by paying close attention to social, economic, environmental and ethical responsibilities.

Scotiabank's CSR efforts have been acknowledged this year with a number of awards, including *Maclean's Magazine* Green 30, which named the Bank one of Canada's most environmentally conscious employers.

### CSR Advisory Committee

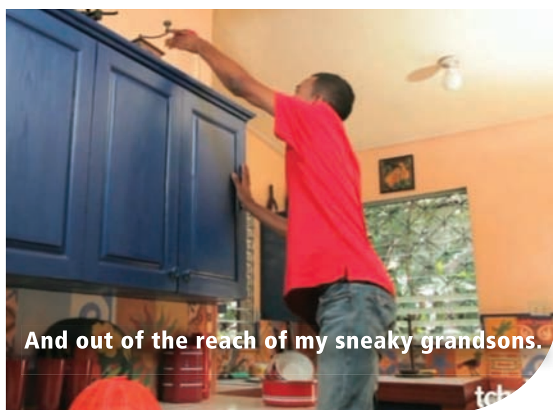
With representatives from areas throughout the organization, Scotiabank's CSR Advisory Committee helps drive the Bank's CSR strategy and champions CSR initiatives and activities. Recently, the committee unveiled a new CSR objective statement to better describe the Bank's CSR strategy (see above left).

### Meaningful difference

In every community we serve, the Bank wants to make a positive and meaningful difference. Over the years, we have learned that we can have the greatest impact at the local community level. Scotiabank supports hundreds of local and regional charities, civic causes and non-profit organizations, through the Bright Future program.

One of this year's most innovative stories is in Haiti, where we launched a "mobile wallet" financial service called TchoTcho Mobile, with Digicel and YellowPepper, following last year's devastating earthquake.

The mobile wallet service has helped make banking easy, affordable and accessible to all Haitians, including the 90% who do not participate in the traditional financial system, but do use mobile phones. It allows customers to perform basic financial functions, such as withdrawals, deposits, transfers and payments. Businesses are using the mobile wallet to accept payments from customers for goods and services and pay employees.




## United Nations Global Compact

The Bank has been a member of the United Nations (UN) Global Compact since 2010. Scotiabank was the first Canadian-based financial institution to adopt the UN standards in its international day-to-day operations.

The UN Global Compact fosters socially responsible business practices. To become a member, businesses must commit to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

The UN Global Compact is also charged with supporting the UN's Millennium Development Goals, such as fighting HIV/AIDS. Scotiabank has supported and undertaken many initiatives worldwide to raise awareness and funding for the fight against HIV/AIDS.

Scotiabank makes an effort to make a difference through its CSR initiatives, both systemically and in local communities, to build strong relationships with all stakeholders.

For more information on Scotiabank's commitment to corporate social responsibility, scan the QR code (left) or visit scotiabank.com/csr

### Socially responsible indices

Scotiabank is included in a number of indices based on our performance on environmental, social and corporate governance criteria.

# Building a Bright Future, together

We are bringing together the passion of our employees, the insight of our partners and the spirit of our communities. Through the Scotiabank Bright Future program, our global charitable efforts are aimed at being responsive to the needs of local communities at a grassroots level.

**Help out, follow or apply for funding at scotiabank.com/brightfuture.**

**Together, we can build a bright future for everyone.**

For more information on Scotiabank's Bright Future program, scan the QR code (left) or visit scotiabank.com/brightfuture

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# Maintaining a strong multinational presence.

Employees worldwide

**75,362**

Branches and offices worldwide

**2,926**

Automated banking machines (ABMs) worldwide

**6,260**

## Locations around the world

**North America:** Canada, Mexico, United States ⋮ **Central & South America:** Belize, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Guyana, Nicaragua, Panama, Peru, Uruguay, Venezuela **Caribbean:** Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Bonaire, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Puerto Rico, St. Eustatius, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos, U.S. Virgin Islands ⋮ **Europe & Middle East:** Dubai, Egypt, France, Ireland, Luxembourg, Netherlands, Russia, Turkey, United Kingdom ⋮ **Asia/Pacific:** Australia, China, Hong Kong SAR – People's Republic of China, India, Japan, Korea (Republic of), Malaysia, Singapore, Taiwan, Thailand, Vietnam

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