U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 40-F

[Check one]

o **Registration statement pursuant to section 12 of the Securities Exchange Act of 1934**

or

þ **Annual report pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended October 31, 2004 Commission File Number 001-31316

THE BANK OF NOVA SCOTIA

(Exact name of Registrant as specified in its charter)

Canada
(Province or other jurisdiction of incorporation or organization)

6029
(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

44 King St. West, Scotia Plaza 8th floor,
Toronto, Ontario, Canada M5H 1H1
(416) 866-3672
(Address and telephone number of Registrant's principal executive offices)

The Bank of Nova Scotia, One Liberty Plaza, 25 th floor,
New York, N.Y., U.S.A. 10006
Attention: Douglas Cooper
(212) 225-5000
(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not applicable
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

þ Annual information form þ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	1,008,505,580
Preferred Shares, Series 12	12,000,000

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes o 82-_____ No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

CONTROLS AND PROCEDURES

Management's responsibility for financial information contained in the Annual Report is described on page 84 of Exhibit 3, 2004 Consolidated Financial Statements. In addition, the Bank's Audit and Conduct Review Committee of the Board of Directors has reviewed, and the Board of Directors has reviewed and approved the 2004 Consolidated Financial Statements and Management's Discussion & Analysis prior to release. The Bank is committed to providing timely, accurate and balanced disclosure of all material information about the Bank and to providing fair and equal access to such information. The Bank's disclosure policies and practices are published on its website.

As of October 31, 2004, the Bank's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined under the rules adopted by the U.S. Securities and Exchange Commission (SEC). This evaluation was performed under the supervision of, and with the participation of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). In addition, the Bank's management have assessed whether during the 2004 fiscal year there have been any significant 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.

Disclosure controls are procedures designed to ensure that information required to be disclosed in reports filed with securities regulatory agencies is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Bank's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Internal control over financial reporting is a process designed by, or under the supervision of, senior management, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Bank's consolidated financial statements in accordance with Canadian generally accepted accounting principles.

The Bank's management, including the CEO and the CFO, does not expect that the Bank's disclosure controls or internal control over financial reporting will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Bank have been detected.

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

- the Bank's disclosure controls are effective in ensuring that material information relating to the Bank, including its consolidated subsidiaries, is made known to management on a timely basis, and is fairly presented in all material respects in this annual report; and
- during the 2004 fiscal year, to the best of their knowledge and belief, 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.

The Bank is continually evolving and enhancing its systems of controls and procedures. Based on current SEC rules, the CEO and CFO will be required to certify annually, commencing October 31, 2005, that they have evaluated the effectiveness of the design and operation of internal control over financial reporting and must provide an annual report on internal control over financial reporting. The shareholders' auditors will be required to attest to and report on managements' assessment. A significant effort is under way to meet this new reporting requirement.

AUDIT COMMITTEE FINANCIAL EXPERT

All of the members of the Bank's audit committee are financially literate, and one or more members of the audit committee meet the definition of a financial expert. The Bank's board of directors has determined that Mr. Ronald A. Brenneman is an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's corporate governance standards applicable to the Bank.

The Securities and Exchange Commission has indicated that the designation of a person as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee and board of directors in the absence of such designation.

CODE OF ETHICS

The Bank has adopted a code of ethics, entitled "Scotiabank Guidelines for Business Conduct". These guidelines have been in place for many years and apply to all directors, officers and employees of the Bank. The Scotiabank Guidelines for Business Conduct are available on the Bank's Internet website at www.scotiabank.com, in the Corporate Governance section, and are available in print to any shareholder upon written request to the Secretary of the Bank. Amendments to the Scotiabank Guidelines for Business Conduct and waivers, if any, for directors and executive officers will be disclosed on the Bank's website. There were no such waivers granted in fiscal 2004.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The disclosure provided in Table 29 "Fees paid to the shareholders' auditors" on page 74 of Exhibit 2, Management's Discussion & Analysis, is incorporated by reference herein. The nature of these services is described below:

- Audit services generally relate to statutory audit fees, other regulatory-required auditor attest services and services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

- Audit-related services include accounting consultations, due diligence reviews on acquisitions and other services related to the financial statements, but not considered part of the audit.

- Tax services outside of the audit scope represent consultations for transfer pricing and other international tax matters, assistance with tax credits for computer system development, capital market transactions, insurance, capital tax, global stock-based compensation plans, and assistance with the preparation of corporate and personal tax returns.

- Other non-audit services include translation services, derivatives-related accounting consultation, corporate recovery services, advice and assistance with problem loan accounts, and compensation surveys.

None of the above services qualified for an exemption under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X from the requirement that the audit committee pre-approve the services. The audit committee's pre-approval policies and procedures are attached as Exhibit 5. The majority of the hours expended on the audit of the consolidated financial statements were attributable to work performed by the full-time permanent employees of the Bank's independent auditors: KMPG LLP and PricewaterhouseCoopers LLP.

OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under "Off-Balance Sheet Arrangements" on pages 47 and 48 of Exhibit 2, Management's Discussion & Analysis, is incorporated by reference herein. Additional information from note 2 on page 94, note 4(b) on pages 96 and 97, note 11 on page 100, note 13 on pages 102 and 103, and note 20 on pages 111 and 112 of Exhibit 3, 2004 Consolidated Financial Statements, is incorporated by reference into "Off-Balance Sheet Arrangements" in Management's Discussion & Analysis.

CONTRACTUAL OBLIGATIONS

The disclosure provided under "Contractual Obligations" on page 61 of Exhibit 2, Management's Discussion & Analysis, is incorporated by reference herein. Additional information from note 9 on page 100, note 16 on pages 106 and 107, note 20 on pages 111 and 112, and note 21 on pages 113 to 116 of Exhibit 3, 2004 Consolidated Financial Statements, is incorporated by reference into "Contractual Obligations" in Management's Discussion & Analysis.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Bank's audit committee is composed of the following directors: Hon. Michael J.L. Kirby (Chair), Ronald A. Brenneman, M. Keith Goodrich, Hon. Barbara J. McDougall, Elizabeth Parr-Johnston, Paul D. Sobey, and Barbara S. Thomas. Ex-officio member: Arthur R.A. Scace.

Undertaking

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

Signatures

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant: **THE BANK OF NOVA SCOTIA**

By: /s/ R. Waugh
Name: Richard E. Waugh
Title: President and Chief Executive Officer

Date: December 20, 2004

EXHIBIT INDEX

Exhibit No.	Description
1.	Annual Information Form dated December 20, 2004
2.	Management's Discussion and Analysis of Financial Conditions and Results of Operations (pages 29 through 81 of the 2004 Annual Report)
3.	2004 Consolidated Financial Statements (pages 83 through 124 of the 2004 Annual Report)
4.	The following page of the 2004 Annual Report is also incorporated by reference into the Annual Information Form: Principal Subsidiaries (page 125 of the 2004 Annual Report)
5.	Audit Committee Pre-Approval Policies and Procedures.
6.	Corporate Governance
7.	Auditors' Consent
8.	Comments by Auditors for U.S. Readers on Canada — U.S. Reporting Differences
9.	Certifications required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of the U.S. Sarbanes-Oxley Act of 2002.
10.	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002.



The Bank of Nova Scotia

ANNUAL INFORMATION FORM

DECEMBER 20, 2004

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Distribution Notice

When this annual information form is provided to security holders or other interested parties, it must be accompanied by copies of all the documents (or excerpts thereof) incorporated herein by reference. Portions of this Annual Information Form of The Bank of Nova Scotia (the "Bank") dated December 20, 2004 (the "AIF") are disclosed in the Annual Report to Shareholders for the year ended October 31, 2004 (the "Annual Report").

Financial Data

Except as otherwise noted, all information is given at or for the year ended October 31, 2004. Amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles.

Forward-looking Statements

This document includes forward-looking statements which are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. These statements include comments with respect to the Bank's objectives, strategies, 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. Forward-looking statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intent", "estimate", "may increase", "may fluctuate", and similar expressions of future or conditional verbs such as "will", "should", "would" and "could".

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. The Bank cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services; the Bank's ability to complete and integrate acquisitions; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; consolidation in the Canadian financial services sector; changes in tax laws; competition; judicial and regulatory proceedings; acts of God, such as earthquakes; the possible impact of international conflicts and other developments including terrorist acts and war on terrorism; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements.

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

CORPORATE STRUCTURE

Name, Address and Place of Incorporation

The Bank was granted a charter under the laws of the Province of Nova Scotia in 1832 and commenced operations in Halifax, Nova Scotia in that year. Since 1871, the Bank has been a chartered bank under the *Bank Act* (Canada) (the "Bank Act"). The Bank is a Schedule I bank under the Bank Act and the Bank Act is its charter. The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 2Z1 and its executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1. A copy of the Bank's by-laws are available on www.sedar.com.

Intercorporate Relationships

Each international principal subsidiary of the Bank is incorporated or established and existing under the laws of the jurisdiction in which its principal office is located, with the exceptions of Scotia Holdings (U.S.) Inc. and Scotiabanc Inc. which are incorporated and existing under the laws of the State of Delaware. Each Canadian principal subsidiary of the Bank is incorporated or established and existing under the laws of Canada, with the exceptions of BNS Capital Trust, Scotia Capital Inc., Scotia Securities Inc. and Scotiabank Capital Trust which are incorporated or established and existing under the laws of the Province of Ontario.

The Bank's principal subsidiaries are listed on page 125 of the Annual Report and that page is incorporated herein by reference.

GENERAL DESCRIPTION OF THE BANK'S BUSINESS

Three-Year History

The Bank is one of North America's premier financial institutions and Canada's most international bank. The Bank is a full-service financial institution, active in both domestic and international markets. In Canada the Bank provides a full range of retail, commercial, corporate, investment and wholesale banking services through its extensive network of branches and offices in all 10 provinces and two territories. With approximately 48,000 employees, the Bank, and its affiliates, have branches and offices in 50 countries which provide a wide range of banking and financial services, either directly or through subsidiary and associated banks, trust companies and other financial institutions.

In the fiscal year ended October 31, 2004, the Bank's net income was a record $2,931 million, a substantial increase of $454 million from 2003. Earnings per share (on a diluted basis) were $2.82 and return on equity was very strong at 19.9%. Dividends paid on its common shares rose for the 13th consecutive year. The Bank succeeded in earning through the substantial negative impact of foreign currency translation, as the Canadian dollar appreciated against virtually all currencies during the year.

The Bank realized record earnings of $2,477 million during the fiscal year ended October 31, 2003. The Bank increased its customer internet use to over one million users. Domestic Banking continued to expand its automated banking machine ("ABM") network in furtherance of its goal of 500 additional machines, launched two new mutual funds and increased retail brokerage fee-based assets by 33%. International Banking increased its interest in Scotiabank Inverlat in Mexico to 91%, acquired 39 new branches in the Dominican Republic, introduced internet-based banking in Jamaica, Trinidad & Tobago and Barbados and became the first Canadian bank in China with a local currency license. In 2003, Corporate and Investment Banking significantly improved its credit quality and doubled its market share in domestic equity underwriting.

The Bank's net income for fiscal 2002 was $1,797 million. During the year, the Bank faced a number of challenges, including weak corporate credit markets in the United States. In addition, the Bank sold the operations of its subsidiary in Argentina. The sale was as a result of liquidity problems that affected Argentina's entire financial services industry during a period of severe political and economic difficulties. As a result, the Bank incurred a charge against income of $540 million after tax. Domestic Banking's

contribution to net income was $1,142 million, representing an increase of 19% over the previous year. International Banking had a strong year in Mexico and the Caribbean and achieved earnings of $125 million ($665 million excluding charges related to Argentina of $540 million). Corporate and Investment Banking achieved good results in Canada, but these results were offset by problems in the United States loan portfolio and income declined by 45% from the previous year to $380 million.

DESCRIPTION OF THE BANK'S BUSINESS

General Summary

The Bank has three major business lines: Domestic Banking, International Banking and Scotia Capital. Each of these three business lines is discussed below and additional information on each of the Bank's business lines is available in the 2004 Management's Discussion and Analysis found on page 49 of the Annual Report.

Domestic Banking

The Bank's Domestic Banking business line provides a full range of banking and investment services to retail and small business banking, commercial and wealth management customers across Canada. The Retail and Small Business division provides a full range of financial products and services to over 6.2 million customers across a network of 15,000 staff in more than 950 branches and 2,550 ABMs, three call centres plus telephone, wireless and internet banking. In addition, our customers are served 24/7 through more than 2,550 ABMs and our on-line banking service. The Wealth Management division provides full service brokerage, direct investing, mutual funds and private client services. The Commercial Banking division provides a full range of competitive products and customized solutions to mid-market and independent business clients. This includes specialization in real estate lending and automotive finance. As well, merchant banking services are provided through one of the Bank's subsidiaries, Roynat Capital Inc.

International Banking

The Bank's International Banking business line includes operations in the Caribbean, Central America, Mexico, Latin America and Asia Pacific. In the Caribbean and Central America operates in 24 countries with 259 branches and offices and a network of 535 ABMs and provides over two million customers with a broad range of personal and commercial banking services. In Mexico, Grupo Financiero Scotiabank Inverlat has 431 branches and offices and a network of 1,023 ABMs. It provides more than one million personal, commercial and corporate customers with a full range of banking products and services, along with select capital markets capabilities. In Latin America, the Bank operates in four countries with 59 branches and offices and a network of 102 ABMs and provides personal, commercial and corporate banking services. The Bank's operations in this region are concentrated in Chile with Scotiabank Sud Americano, as well as minority interests in Venezuela and Peru and a representative office in Brazil. The Bank also has a portfolio of emerging market securities. In the Asia Pacific region, the Bank operates in 11 countries with 27 branches and offices and offers primarily corporate and commercial products and services including loans, trade finance, treasury, precious metals, foreign exchange and project and transportation financing, as well as retail mortgage financing in selected countries.

Scotia Capital

Scotia Capital provides full service wholesale banking serving corporate, government and investor clients in eight selected industries. Scotia Capital's Canadian relationship management unit manages the Bank's highest-value, multi-product clients. This business line provides specialized and syndicated lending, corporate debt and equity underwriting, mergers and acquisitions, derivatives, fixed income, foreign exchange and precious metals, as well as equity sales, trading and research.

Competition

The Canadian banking system is dominated by six major Canadian banks, each of which maintains an extensive branch network, augmented with automated banking machines, telephone and internet banking facilities. In addition to the six major Canadian banks, the competitive landscape of the Canadian financial services industry includes more than 2,100 institutions consisting of independent trust companies, foreign-owned bank subsidiaries, foreign bank branches, credit unions and caisses populaires, life insurance companies, property and casualty insurers, independent investment dealers and independent retail mutual fund management companies. Key competitive factors include the range and features of financial products, their pricing, distribution, and service quality.

The competitive landscape in the United States is significantly more complex given the overall size and activity level of the financial services market and the presence of regional and national competitor groupings for many businesses.

The Bank provides a broad range of banking and other financial services to retail, commercial and corporate banking clients in the Caribbean, Latin America and other markets either directly or through subsidiaries. In providing these services the Bank competes with local and international banks and other financial institutions.

Competition is reflected not only in the suite of products and services offered and the different pricing and service models adopted. In addition, it is evident in the use of leading-edge technology to gain strategic advantage, and the use of partnerships and alliances entered into by the various institutions to better serve their customers. Increased competition is also evident in the drive for scale and other operating efficiencies.

Supervision and Regulation in Canada

The Bank's activities in Canada are governed by the Bank Act, which is one of four main federal statutes governing the financial services industry in Canada. The other three statutes cover trust and loan companies, insurance companies and cooperative credit associations.

In accordance with the Bank Act, an organization may engage in and carry on the business of banking and such business generally as appertains to the business of banking. The Bank Act grants Canadian chartered banks broad powers of investment in the securities of other corporations and entities, but imposes limits upon substantial investments. Under the Bank Act, generally a bank has a substantial investment in a body corporate when (1) voting rights attached to the voting shares beneficially owned by the bank and by entities controlled by the bank exceed 10% of the voting rights attached to the outstanding voting shares of the body corporate or (2) the total number of shares of the body corporate that are beneficially owned by the bank and entities controlled by the bank represent more than 25% of the total shareholders' equity of the body corporate. In addition, under the Bank Act, a bank has a substantial investment in an unincorporated entity where the ownership interests in such entity beneficially owned by that bank and by entities controlled by that bank exceed 25% of all ownership interests in such entity. A Canadian chartered bank is permitted to have a substantial investment in entities whose activities are consistent with those of certain prescribed permitted substantial investments. In general, a bank will be permitted to invest in an entity that carries on any financial services activity whether that entity is regulated or not. Further, a bank may generally invest in entities that carry on commercial activities that are related to the promotion, sale, delivery or distribution of a financial product or service, or that relate to certain information services. A bank may also invest in entities that invest in real property, act as mutual funds or mutual fund distributors or that service financial institutions and the bank may have downstream holding companies to hold these investments. In certain cases, the approval of the Minister of Finance or the Superintendent of Financial Institutions Canada (the "Superintendent") is required prior to making the investment and/or the bank is required to control the entity. Other than creditor, life and mortgage insurance, which can be offered through branch systems, Canadian chartered banks may offer insurance products only through their subsidiaries and not through their branch systems. Banks may offer insurance products through their credit

card systems but are prohibited from target-marketing these products to selected cardholders. Automobile leasing continues to be a prohibited activity for all federally incorporated financial institutions.

Without Minister of Finance approval, no person or group of associated persons may own more than 10% of any class of shares of the Bank. With Minister of Finance approval, a person or group of associated persons may own up to 20% of any class of voting shares and up to 30% of any class non-voting shares of the Bank. Ownership of the Bank's shares by Canadian or foreign governments is prohibited under the Bank Act.

The Superintendent is responsible to the Minister of Finance for the administration of the Bank Act. The Superintendent provides guidelines for disclosure of a bank's financial information. The Superintendent is also required to make an annual examination of each bank to ensure compliance with the Bank Act and to ensure that each bank is in sound financial condition. The report of the Superintendent's examination is submitted to the Minister of Finance. The Bank is subject to regulation by the Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada and the activities of the Bank in Canada are subject to various other federal statutory provisions. The activities of the Bank's trust subsidiaries and insurance subsidiaries are also regulated in Canada under provincial laws in respect of their activities in the provinces. Certain activities of the Bank and the Bank's subsidiaries acting as securities brokers, dealers (including investment and mutual fund dealers), underwriters and advisors (including investment counsel and portfolio managers) are regulated in Canada under provincial securities legislation and, in some cases, by self regulatory organizations such as the Investment Dealers Association for broker dealers and the Mutual Fund Dealers Association for mutual fund dealers.

Supervision and Regulation Outside Canada

United States

The activities of the Bank and its subsidiaries in the United States are subject to federal and state supervision, regulation and examination by bank regulatory and other governmental agencies. The Bank is subject to the Bank Holding Company Act of 1956 ("BHCA") and the International Banking Act of 1978 and associated regulations of the Board of Governors of the Federal Reserve System (the "Board"). The Board and other banking regulators oversee the operation of the Bank's branches, offices and subsidiaries in the United States. The Securities and Exchange Commission and state securities regulators regulate its broker-dealer subsidiary.

The Bank is a "financial holding company" under the BHCA. This status allows a broad range of financial and merchant banking activities to be undertaken in the United States. In addition, the Bank owns an insured depository institution in Puerto Rico that is engaged in commercial and retail banking and subject to various laws and regulation and examination by Puerto Rico and federal regulators. Provisions of the Federal Reserve Act place certain limitations and restrictions on the transactions that the Bank's United States branches, agencies and subsidiary bank engage in with other offices and affiliates of the Bank.

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

Mexico

Grupo Financiero Scotiabank Inverlat, S.A. de C.V. is an "affiliate holding company" pursuant to the Law for the Regulation of Financial Groups of Mexico and to the Rules for the Establishment of Foreign Affiliate Financial Institutions of Mexico. The governing authority is the Ministry of Finance of Public

Credit of Mexico and the supervising authorities are the Central Bank of Mexico and the National Banking and the Securities Commission of Mexico.

Other Jurisdictions

Outside of the United States and Mexico, each of the Bank's branches, agencies and subsidiaries is also subject to the regulatory requirements of the jurisdiction in which it conducts its business.

Social and Environmental Policies

Each year the Bank publishes its Public Accountability Statement which provides details of the Bank's social and environmental policies. This document may be found on the Bank's website in the Community Development section.

Risk Factors

The risks faced by the Bank are described on pages 54 to 63 of the Annual Report and those pages are incorporated herein by reference.

SELECTED FINANCIAL INFORMATION

Selected consolidated financial information for the three most recently completed financial years of the Bank is provided on page 76 of the Annual Report and that page is incorporated herein by reference.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Bank's 2004 Management's Discussion and Analysis can be found at pages 29 to 81 of the Annual Report and those pages are incorporated herein by reference.

DIVIDENDS

Restrictions on the Payment of Dividends

Under the Bank Act, the Bank is prohibited from declaring any dividends on its common shares or preferred shares when the Bank is, or would be placed by such a declaration, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless dividends to which the preferred shareholders are then entitled to be paid or sufficient funds have been set aside to do.

In the event that applicable cash distributions on any of the Scotiabank Trust Securities (meaning securities issued by BNS Capital Trust and Scotiabank Capital Trust) are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred shares or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred shares or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities.

Currently, these limitations do not restrict the payment of dividends on preferred shares or common shares.

The Bank's preferred shares are entitled to preference over the common shares and over any other shares of the Bank ranking junior to the preferred shares with respect to the payment of dividends.

The Bank's Dividend Philosophy

In fiscal 2004, the Bank's dividend payout target was in the range of 35 to 45% of net income and the actual payout ratio was 38.4%. The Bank's practice has been to relate dividends to the trend earnings, while ensuring that capital levels are sufficient for both growth and depositor protection.

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

Year	Common share dividend*
2004	$ 1.10
2003	$ 0.84
2002	$ 0.725

* Amounts have been adjusted to reflect the April 28, 2004 payment of a stock dividend of one common share for each of the Bank's issued and outstanding common shares.

DESCRIPTION OF THE BANK'S CAPITAL STRUCTURE

Common Shares

The authorized common share capital of the Bank consists of an unlimited number of common shares, without nominal or par value, of which 1,008,505,580 common shares were issued and outstanding as at October 31, 2004.

Holders of the Bank's common shares are entitled to vote at all meetings of the shareholders of the Bank except meetings at which only the holders of preferred shares of the Bank are entitled to vote. Common shareholders are entitled to receive dividends, as and when declared on the common shares.

After the payment to the holders of the preferred shares of the amount or amounts to which they may be entitled, the holders of the Bank's common shares shall be entitled to receive the remaining property of the Bank upon liquidation, dissolution or winding-up thereof.

Preferred Shares, Series 12

The authorized preferred share capital of the Bank consists of an unlimited number of preferred shares without nominal or par value. As at October 31, 2004, 12,000,000 non-cumulative preferred shares, series 12 (the "Preferred Shares") were issued and outstanding.

The Preferred Shares are entitled to preference over the common shares and over any other shares of the Bank ranking junior to the Preferred Shares with respect to the payment of dividends and upon any distribution of assets in the event of liquidation, dissolution or winding-up of the Bank.

The Bank may not create, without the approval of the holders of Preferred Shares, any other class of shares ranking prior to or on a parity with the Preferred Shares, increase the authorized number of Preferred Shares or amend the provisions attaching to the Preferred Shares.

Any approval to be given by the holders of the Preferred Shares may be given by a resolution carried by the affirmative vote of not less than 66 2/3% of the votes cast at a meeting of holders of Preferred Shares at which a majority of the outstanding Preferred Shares is represented or, if no quorum is present at such meeting, at any adjourned meeting at which no quorum requirements would apply.

The holders of the Preferred Shares will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, on the third last business day of each of January, April, July and October in each year, at a quarterly rate equal to $0.328125 per share.

The Preferred Shares will not be redeemable prior to October 29, 2013. On and after October 29, 2013, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and subject to certain conditions being met, the Bank may redeem at any time all or, from time to time, any part of the outstanding Preferred Shares, at the Bank's option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of $25.00, together with declared and unpaid dividends to the date fixed for redemption.

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

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

(a) pay any dividends on the common shares or any other shares ranking junior to the Preferred Shares (other than stock dividends in shares ranking junior to the Preferred Shares); or

(b) redeem, purchase or otherwise retire any common shares or any other shares ranking junior to the Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares); or

(c) redeem, purchase or otherwise retire less than all the Preferred Shares; or

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares;

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

Upon notice being given by the Bank from time to time with the prior approval of the Superintendent, a holder of Preferred Shares may exchange all but not less than all of the Preferred Shares held by such holder into an equal number of a new issue of a series of fully-paid and freely tradeable preferred shares issued by the Bank which at the time of such issue qualifies as Tier 1 capital for regulatory capital purposes of the Bank on the date fixed for exchange in such notice.

The holders of the Preferred Shares as such will not be entitled to receive notice of or to attend or to vote at any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors of the Bank has not declared the whole dividend on the Preferred Shares in any quarter. In that event, the holders of the shares will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held. The voting rights of the holders of the Preferred Shares shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares to which the holders are entitled subsequent to the time such voting rights first arose until such time as the Bank may again fail to declare the whole dividend on the Preferred Shares in any quarter, in which event such voting rights shall become effective again and so on from time to time.

Constraints on Ownership of the Bank's shares

The Bank Act contains restrictions on the issue, transfer, acquisition, beneficial ownership and voting of all shares of a chartered bank. Please refer to the section above entitled "Description of the Bank's Business – General Summary — Supervision and Regulation in Canada" for a summary of these restrictions.

Ratings of Securities

The following ratings have been assigned to the Bank's securities by the rating agencies noted below. Please note that a security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the applicable rating organization.

	Moody's Investor Services	Standard & Poor's	Fitch Ratings Ltd.	Dominion Bond Rating Service Limited
Senior long term debt / deposits	Aa3	AA-	AA-	AA (low)
Subordinated Debt	A1	A+	Not rated	A (high)
Short term deposits / Commercial paper	P-1	A-1+	F1+	R-1 (middle)

The Bank's preferred shares are rated Pfd-1(low)n by Dominion Bond Rating Service Limited.

The above-noted ratings have the following meanings:

Moody's Investor Services

- Bonds and preferred stock which are rated Aa are judged to be of high quality by all standards and together with the Aaa group comprise what are generally known as high-grade bonds. Bonds rated Aa may not have margins of protection as large as those in the Aaa category or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk somewhat larger than bonds in the Aaa category.

- Banks rated A possess exceptional intrinsic financial strength. Typically, they will be major institutions with highly valuable and defensible business franchises, strong financial fundamentals and a very attractive and stable operating environment.

- Moody's short term ratings are opinions of the issuer's ability to honour short-term financial obligations. A P-1 rating indicates that an issuer has a superior ability to repay short-term debt obligations.

Standard & Poor's, a Division of The McGraw-Hill Companies, Inc.

- An obligation rated AA differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. The minus sign is a modifier to show relative standing within AA category.

- An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. The plus sign is a modifier to show relative standing within the A category.

- A short-term obligation rated A-1 is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. The plus sign (+) indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

Fitch Ratings Ltd.

- AA rated securities have a very high credit quality and denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. The minus sign denotes relative status within the AA category.

- F1 is the highest credit quality and indicates the strongest capacity for timely payment of financial commitments. The plus sign (+) denotes an exceptionally strong credit feature.

Dominion Bond Rating Services Limited ("DBRS")

- Long-term debt rated AA is of superior credit quality, and protection of interest and principal is considered high. In many cases they differ from long-term debt rated AAA only to a small degree. Entities rated AA are also considered to be strong credits, typically exemplifying above average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events.

- Short-term debt rated R-1 (middle) is of superior credit quality and, in most cases, ratings in this category differ from R-1 (high) credits by only a small degree. Entities rated R-1 (middle) are also considered strong credits, and typically exemplify above average strength in key areas of consideration for the timely repayment of short-term liabilities.

- Long-term debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated entities. Entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities.

- Preferred shares rated Pfd-1 are of superior credit quality, and are supported by entities with strong earnings and balance sheet characteristics. Pfd-1 securities generally correspond with companies whose senior bonds are rated in the AAA or AA categories. The relationship between senior debt ratings and preferred share ratings should be understood as one where the senior debt rating effectively sets a ceiling for the preferred shares issued by the entity. However, there are cases where the preferred share rating could be lower than the normal relationship with the issuer's senior debt rating. Each rating category is denoted by the subcategories "high" and "low". The "n" indicates that the securities are non-cumulative.

MARKET FOR SECURITIES OF THE BANK

The Bank's common shares trade under the stock symbol "BNS" on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE"). The Preferred Shares are listed on the TSX and the Bank has deposit notes and debentures listed on the London Stock Exchange.

Trading Price and Volume of the Bank's Common Shares on the Toronto Stock Exchange

The following table presents the high and low closing prices for the Bank's common shares and the average daily trading volume, on a monthly basis on the TSX. All numbers below have been adjusted for the April 28, 2004 stock dividend which had the same effect as a two-for-one stock split.

Month	High	Low	Average Daily Trading Volume
October 2004	$39.60	$36.80	2,066,891
September 2004	$37.10	$35.68	1,600,870
August 2004	$37.80	$35.73	1,357,415
July 2004	$36.60	$35.20	1,349,866
June 2004	$36.48	$34.12	1,861,234
May 2004	$35.52	$33.18	2,127,380
April 2004	$37.15	$34.51	2,337,673
March 2004	$35.88	$34.01	2,430,442
February 2004	$34.55	$33.50	1,801,336
January 2004	$34.10	$32.50	2,262,026
December 2003	$32.94	$31.45	2,550,164
November 2003	$33.13	$31.90	2,066,714

DIRECTORS AND EXECUTIVE OFFICERS OF THE BANK

Directors and Board Committees of the Bank

The term of office of each director expires at the close of the Bank's next Annual Meeting of Shareholders following the election of the director.

Name and Municipality and Province of Residence	Board Committee memberships	Principal Occupation	Shares / DDSU's Owned
Ronald A. Brenneman Calgary, Alberta (Director since March 28, 2000)	ACRC HRC	President and Chief Executive Officer of Petro-Canada, an oil and gas company	24,091 / 11,748

Name and Municipality and Province of Residence	Board Committee memberships	Principal Occupation	Shares / DDSU's Owned
C.J. Chen Singapore (Director since October 30, 1990)	CGPC	Senior Partner Rajah & Tann, advocates and solicitors, Singapore	33,624 / 1,269
N. Ashleigh Everett Winnipeg, Manitoba (Director since October 28, 1997)	CGPC HRC	President, Corporate Secretary and director of Royal Canadian Securities Limited, whose principal businesses include Domo Gasoline Corporation, Bowring Home and Gift Shops and Royal Canadian Properties Limited	12,308 / 6,353
M. Keith Goodrich Lake Forest, Illinois, U.S.A. (Director since August 28, 1990)	ACRC CGPC	Retired Chairman of Moore Corporation Limited, a business information products, systems and services company	35,682 / 0
John C. Kerr, C.M. O.B.C., LL.D. Vancouver, British Columbia (Director since March 30, 1999)	CGPC HRC	Chairman of Lignum Investments Ltd., a private investment company	8,790 / 11,125
The Honourable Michael J.L. Kirby Nepean, Ontario (Director since March 28, 2000)	ACRC — Chair ERC	Member of the Senate of Canada	2,459 / 12,135
Laurent Lemaire Warwick, Quebec (Director since March 31, 1987)	ERC HRC	Executive Vice-Chairman of the Board of Cascades Inc., a manufacturer of pulp and paper products, packaging and construction materials and sanitary products	13,322 / 0
John T. Mayberry Burlington, Ontario (Director since March 29, 1994)	ERC — Chair	Retired Chair of the Board and CEO of Dofasco Inc., a manufacturer of primary steel products	10,971 / 12,839
The Honourable Barbara J. McDougall, O.C. Toronto, Ontario (Director since March 30, 1999)	ACRC HRC	Advisor to Aird & Berlis LLP, Barristers and Solicitors, Toronto	5,095 / 4,103
Elizabeth Parr-Johnston, Ph.D. Chester Basin, Nova Scotia (Director since October 26, 1993)	ACRC CGPC	President of Parr Johnston Economic and Policy Consultants	9,620 / 11,678

Name and Municipality and Province of Residence	Board Committee memberships	Principal Occupation	Shares / DDSU's Owned
Arthur R.A. Scace, Q.C. Toronto, Ontario (Director since March 25, 1997. Non-executive Chair since March 2, 2004)	ERC HRC — Chair Ex-officio member of ACRC and CGPC	Counsel to McCarthy Tétrault LLP, barristers and solicitors, Toronto	14,081 / 10,018
Gerald W. Schwartz Toronto, Ontario (Director since May 26, 1999)	ERC	Chairman and Chief Executive Officer of Onex Corporation, a diversified company with global operations in services, manufacturing and technology industries	100,000 / 1,269
Allan C. Shaw, C.M., LL.D. Halifax, Nova Scotia (Director since September 30, 1986)	CGPC — Chair ERC	Chairman and Chief Executive Officer of The Shaw Group Limited, a manufacturer of residential and construction products and a real estate developer	69,373 / 13,836
Paul D. Sobey Kings Head, Pictou County, Nova Scotia (Director since August 31, 1999)	ACRC CGPC	President and Chief Executive Officer of Empire Company Limited, a food distributor, real estate and investment company	16,000 / 11,174
Barbara S. Thomas Belleair, Florida, U.S.A. (Director since September 28, 2004)	ACRC	Corporate Director	194 / 0
Richard E. Waugh Toronto, Ontario (Director since March 25, 2003)	ERC	President and Chief Executive Officer of the Bank	24,575 / 166,440 (DSUs)

Notes:

ACRC – Audit and Conduct Review Committee

CGPC – Corporate Governance and Pension Committee

ERC – Executive and Risk Committee

HRC – Human Resources Committee

The information as to shares owned or over which control or direction is exercised has been furnished by the respective directors.

All directors have held the positions, or other executive positions with the same, predecessor or associated firms, set out in this AIF for the past five years with the exception of Ronald A. Brenneman who, prior to January 2000 was General Manager, Corporate Planning of Exxon Corporation; Elizabeth Parr-Johnston who, prior to July 2002, was President and Vice-Chancellor of the University of New Brunswick; Arthur R.A. Scace who, prior to January 1, 2004 was a partner of McCarthy Tétrault LLP (Barristers and Solicitors); and Barbara S. Thomas was a director and Interim Chief Executive Officer of Ocean Spray Company and has held the positions of President Warner-Lambert Consumer Healthcare Company and was Chief Executive Officer of Pillsbury Canada Ltd. (1995-1997).

Executive Officers of the Bank

The following are the Bank's executive officers, their titles and municipalities of residence as of December 20, 2004:

Name and Principal Occupation	Municipality of Residence
Richard E. Waugh President and Chief Executive Officer	Toronto, Ontario
Robert W. Chisholm Vice-Chairman, The Bank of Nova Scotia and President and CEO, Domestic Banking and Wealth Management	Toronto, Ontario
W. David Wilson Vice-Chairman, The Bank of Nova Scotia and Chairman and CEO Scotia Capital	Toronto, Ontario
Robert L. Brooks Senior Executive Vice-President, Treasury and Operations	Oakville, Ontario
Sarabjit S. Marwah Senior Executive Vice-President and Chief Financial Officer	Toronto, Ontario
Deborah M. Alexander Executive Vice-President, General Counsel and Secretary	Toronto, Ontario
Peter C. Cardinal Executive Vice-President, Latin America	Oakville, Ontario
Alberta G. Cefis Executive Vice-President, Retail Lending Services	Toronto, Ontario
Sylvia D. Chrominska Executive Vice-President, Human Resources and Public, Corporate and Government Affairs	Toronto, Ontario
Timothy P. Hayward Executive Vice-President and Chief Administrative Officer, International Banking	Oakville, Ontario
Christopher J. Hodgson Executive Vice-President, Wealth Management	Toronto, Ontario
Dieter W. Jentsch Executive Vice-President, Commercial Banking	Toronto, Ontario
Stephen D. McDonald Executive Vice-President, The Bank of Nova Scotia and Executive Managing Director Scotia Capital and U.S. Country Head	New York, New York

Name and Principal Occupation	Municipality of Residence
Robert H. Pitfield Executive Vice-President, International Banking	Toronto, Ontario
Luc A. Vanneste Executive Vice-President and Chief Auditor	Toronto, Ontario
Albert E. Wahbe Executive Vice-President, Electronic Banking	Toronto, Ontario
Warren K. Walker Head, Global Risk Management	Toronto, Ontario
John A. Young Executive Vice-President, Domestic Branch Banking	Toronto, Ontario

All of the executive officers of the Bank have been actively engaged for more than five years in the affairs of the Bank in executive or senior management capacities, except Deborah M. Alexander who, prior to June 2002, was a senior partner in the business law department at Osler, Hoskin and Harcourt LLP (Barristers and Solicitors); Christopher J. Hodgson who, prior to July 14, 2003, was a senior officer of a Canadian mutual fund company; and Stephen D. McDonald who, prior to November 1, 2003, was a senior officer of a Canadian chartered bank.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the best of the Bank's knowledge, after having made due inquiry, the Bank confirms that as the date hereof, no director or executive officer of the Bank:

(a) is, as at the date of this AIF or has been within the last 10 years, a director or executive officer of any company, that while that person was acting in that capacity,

  (i) was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days;

  (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days; or

  (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, or within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer,

except Mrs. MacDougall who is currently a director of Stelco Inc., which, in 2004, entered into an arrangement with its creditors.

To the best of the Bank's knowledge, after due inquiry, none of the directors or executive officers of the Bank have been subject to (a) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or have entered into a settlement agreement with a Canadian securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or a

regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Shareholdings of Management

The directors and executive officers of the Bank as a group own, or exercise control or direction over, less than one per cent of the outstanding common shares of the Bank.

LEGAL PROCEEDINGS

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants.

In view of the inherent difficulty of predicting the outcome of such matters, the Bank cannot state what the eventual outcome of such matters will be; however, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the consolidated financial position, or the results of operations of the Bank.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada is the Bank's transfer agent and registrar main agent at the following addresses: Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 and Computershare Trust Company, Inc., 350 Indiana Street, Golden, Colorado, 80401, U.S.A.

CONFLICTS OF INTEREST

To the knowledge of the Bank, no director or executive officer of the Bank has an existing or potential conflict of interest with the Bank or any of its subsidiaries.

EXPERTS

The Bank's Shareholders' Auditors are KPMG LLP and PricewaterhouseCoopers LLP, who have prepared the Shareholders' Auditors' Report on page 84 of the Annual Report.

THE BANK'S AUDIT AND CONDUCT REVIEW COMMITTEE

A copy of the Bank's Audit and Conduct Review Committee charter is attached to this AIF as Schedule "A" and can also be found on the Bank's website at www.scotiabank.com in the Corporate Governance section.

The following directors are members of the Audit and Conduct Review Committee: Michael J.L. Kirby (Chair), Ronald A. Brenneman (financial expert), M. Keith Goodrich, Barbara J. McDougall, Elizabeth Parr-Johnston, Paul D. Sobey and Barbara S. Thomas. Arthur R.A. Scace is an ex-officio member of the Audit and Conduct Review Committee. All of the members of the Committee are financially literate and independent, and one or more members of the Committee meet the definition of a financial expert. The Bank's Board of Directors has determined that Mr. Ronald A. Brenneman is an audit committee financial expert and is independent, as that term is defined by the NYSE's corporate governance standards applicable to the Bank. The United States Securities and Exchange Commission has indicated that the designation of a person as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee and Board of Directors in the absence of such designation.

The education and related experience (as applicable) of each Audit and Conduct Review Committee member is described below.

Michael J. L. Kirby (Chair) – Senator Kirby currently serves as Vice-Chair of the Accounting Standards Oversight Board. He has been a faculty member at both the Business School at the University of Chicago and the Business School at Dalhousie University. He has previously served as Chair of the Standing Senate Committee on Banking, Trade and Commerce (from 1993 to 1997) during which time that committee developed substantive revisions to the *Canada Business Corporations Act* and other Canadian federal business legislation.

Ronald A. Brenneman – Mr. Brenneman has extensive employment experience directly related to the preparation of and supervision of the preparation of financial statements. He is currently the President and Chief Executive Officer of Petro-Canada (2000 to present), is a former CEO of Esso Benelux (1994 to 1997), was the President of Imperial Oil Ltd. (1992 to 1994) and prior to that was the Chief Financial Officer of Imperial Oil Limited.

M. Keith Goodrich – Mr. Goodrich served as the Chairman of Moore Corporation Limited and prior to becoming Chairman, he served as President and Chief Executive Officer. Mr. Goodrich has a B.S. in Industrial Administration from Yale University.

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

Elizabeth Parr-Johnston – Dr. Parr-Johnston holds a M.A. and Ph.D. in economics from Yale University. She is a former President and Chief Executive Officer of two Canadian universities.

Paul D. Sobey – Mr. Sobey has a Bachelor of Commerce from Dalhousie University, attended the Advanced Management Program at Harvard School of Business and is a chartered accountant. He is currently the President and Chief Executive Officer of Empire Company Limited, a Canadian publicly-traded company.

Barbara S. Thomas – Ms. Thomas has previously served on the audit committee of Dial Corporation and is a current member of the audit committee of Rayovac Corporation. She has ten years experience as a chief executive officer of a company or a reporting division of a company.

Please refer to Table 29 on page 74 of the Annual Report for disclosure relating to the fees paid by the Bank to its external auditors, KPMG LLP and PricewaterhouseCoopers LLP. The nature of these services is described below:

- Audit services generally relate to statutory audit fees, other regulatory-required auditor attest services and services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

- Audit-related services include accounting consultations, due diligence reviews on acquisitions and other services related to the financial statements, but not considered part of the audit.

- Tax services outside of the audit scope represent consultations for transfer pricing and other international tax matters, assistance with tax credits for computer system development, capital market transactions, insurance, capital tax, global stock-based compensation plans, and assistance with the preparation of corporate and personal tax returns.

- Other non-audit services include translation services, derivatives-related accounting consultation, corporate recovery services, advice and assistance with problem loan accounts, and compensation surveys.

The Audit and Conduct Review Committee has adopted policies and procedures (the "Policies") for the pre-approval of services performed by the Bank's external auditors. The objective of the Policies is to maintain the independence of the Bank's external auditors. The Policies state that the Audit and Conduct Review Committee shall pre-approve the following: Audit services (all such engagements provided by the Bank's external auditors as well as all such engagements provided by any other registered public accounting firm); and Audit-related, tax and other non-audit services (all such engagements provided by the Bank's external auditors). The Policies also enumerate pre-approved services including specific audit, audit-related, tax and other non-audit services that are consistent with the independence requirements of the United States Sarbanes-Oxley Act, 2002, Canadian independence standards for auditors and applicable legal requirements. The Policies are applicable to the Bank and its subsidiaries. The Audit and Conduct Review Committee shall review and approve the Policies on at least an annual basis. The Policies do not delegate any of the Audit and Conduct Review Committee's responsibilities to management of the Bank.

ADDITIONAL INFORMATION

The Bank will provide to any person upon request to the Executive Vice-President, General Counsel and Secretary of the Bank: (a) when the securities of the Bank are in the course of a distribution under a preliminary short form prospectus or a short form prospectus: (i) one copy of the Bank's AIF, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF; (ii) one copy of the comparative financial statements of the Bank for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditors, and one copy of the most recent interim financial statements of the Bank that have been filed, if any, for any period after the end of its most recently completed financial year; (iii) one copy of the Management Proxy Circular of the Bank in respect of its most recent annual meeting of shareholders; and (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or (b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Bank may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Bank.

Additional information relating to the Bank may be found on the SEDAR website at www.sedar.com and on the United States Securities and Exchange Commission's website at www.sec.gov. Additional information, including directors' and officers' compensation, indebtedness and options to purchase securities, principal holders of the Bank's securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular. Additional financial information is provided in the Bank's comparative financial statements for its year ended October 31, 2004, as contained in the Annual Report. A copy of such documents may be obtained upon request from the Executive Vice-President, General Counsel and Secretary of the Bank at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1.

Schedule "A"

CHARTER

THE BANK OF NOVA SCOTIA

AUDIT AND CONDUCT REVIEW COMMITTEE OF THE BOARD

The Audit and Conduct Review Committee of the Board of Directors (the Committee) has the responsibilities and duties as outlined below:

AUDIT

A. Mandate

1. To perform such duties as may be required by:

   - the *Bank Act* (the Act) and the regulations thereunder;
   - the *Canada Deposit Insurance Corporation Act;*
   - and other applicable legislation and regulations including those of the Ontario Securities Commission ("OSC"), the Toronto Stock Exchange ("TSX"), the New York Stock Exchange ("NYSE"), the Securities and Exchange Commission ("SEC") and the *Sarbanes-Oxley Act, 2002*

   as more fully described under the heading **"Duties"** below.

2. To assist the Board of Directors (the Board) in fullfilling its oversight responsibilities for:

   - the integrity of the Bank's financial statements;
   - the Bank's compliance with legal and regulatory requirements;
   - the external auditor(s)' qualification and independence;
   - the performance of the Bank's internal audit function and independent auditors;
   - the system of internal control over financial reporting ("internal controls");

3. To perform such other duties as may from time to time be assigned to the Committee by the Board;

4. To act as the audit committee for any federally chartered Canadian financial institution beneficially owned by the Bank as determined by the Board.

B. Authority

The Committee has authority to:

- conduct or authorize investigations into any matters within its scope of responsibility;
- retain independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation;
- meet with Bank officers, external auditors or outside counsel, as necessary;
- determine appropriate funding for independent advisors; and
- communicate directly with the internal and external auditors.

C. Duties

The Committee shall:

Financial Information

- review the quarterly and annual consolidated financial statements of the Bank prior to approval by the Board and disclosure to the public; review should include discussion with management and external auditors of significant issues regarding the financial results, accounting principles, practices and management estimates and judgments;

APPROVED BY THE BOARD
ON JUNE 1, 2004

- review the quarterly and annual Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") prior to review and approval by the Board;
- be satisfied that adequate procedures are in place for the review of the Bank's public disclosure of financial information for the financial statements and periodically assess the adequacy of these procedures;
- review earnings press releases and earnings guidance prior to public disclosure;
- discuss significant financial risk exposures and the steps management of the Bank has taken to monitor, control and report such exposures;
- review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards;
- review the Annual, Information Form;
- review the process relating to and the certifications of the Chief Executive Officer and the Chief Financial Officer on the integrity of the Bank's quarterly and annual consolidated financial statements;
- review the annual letter of certification from the Chief Executive Officer on the Bank's compliance with the Guidelines for Business Conduct.

Compliance

- review the annual report of Group Compliance;
- review investments and transactions that could adversely affect the well-being of the Bank brought to its attention by the external auditor(s) or by any officer of the Bank;
- review the semi-annual report on litigation matters;
- meet with representatives of the Office of the Superintendent of Financial Institutions Canada ("OSFI") to discuss OSFI's supervisory results;
- meet with Bank management to review and discuss the Bank's response to OSFI's recommendations and suggestions pursuant to their supervisory activities;
- review such returns as specified by OSFI;
- meet separately, at least quarterly, with management, the Chief Internal Auditor and with the shareholders' auditors;
- annually, review the charter for the Committee and evaluate the Committee's effectiveness in fulfilling its mandate.

Internal Controls

- require Bank management to implement and maintain appropriate internal control procedures over financial reporting and review, evaluate and approve these procedures;
- establish procedures for processing complaints regarding accounting, internal accounting controls or auditing matters, including confidential, anonymous submissions from employees.

Internal Audit

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

External Auditors

- have responsibility for the oversight of the external auditor(s) who report directly to the Committee;
- retain and terminate the Bank's external auditor(s), subject to shareholder ratification;

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- review the annual audit plan and letter(s) of engagement;
- at least annually review the report of the external auditor(s);
- review and recommend to the Board the annual fee for the all-bank audit, review the Bank's audit related expenses and pre-approve, or delegate pre-approval to one or more independent members, permitted non-audit services;
- approve any significant non-audit relationship with the external auditor(s);
- obtain and review a report from the external auditor(s) describing:
    - the firm(s) internal quality-control procedures;
    - any material issues raised by the most recent internal quality-control review, or peer review, of the firm(s), or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm(s), and any steps taken to deal with any such issues; and
    - to assess all relationships between the external auditor(s) and the Bank that pertain to independence;
- meet with the external auditor(s) and with management to discuss the quarterly and the annual consolidated financial statements including the Bank's disclosure under MD&A;
- review with the external auditor(s) any audit problems or difficulties and management's response;
- review and approve policies for the Bank's employment of current and former employees or partners of the current or former external auditor(s).

Other Duties

- provide for an open avenue of communication between internal audit, the external auditors and the Board of Directors;
- institute and oversee special investigations as needed.

CONDUCT REVIEW

D. Mandate

1. To perform the duties with respect to the Bank's procedures for ensuring its transactions with its related parties comply with Part XI of the *Bank Act* and any regulations thereunder as more fully described under the heading **"Duties"** below.
2. In the event a widely held bank holding company or insurance holding company has a significant interest in any class of shares of the Bank:
    - to establish policies for entering into transactions referred to in subsection 495.1(1) of the *Bank Act,* including transactions with the holding company or any other related party of the Bank that is an entity in which the holding company has a substantial investment; and
    - to review certain of the Bank's transactions that are referred to in subsection 495.3(1) of the *Bank Act* including any transaction with the widely held insurance or bank holding company or any other related party in which they hold a substantial investment.
3. To perform such duties as are required by the *Bank Act* to be dealt with by a committee of the Board concerning the monitoring of adherence to procedures for identifying potential conflicts of interest and for resolving such conflicts of interest, for restricting the use of confidential information, for providing disclosure of information to customers and for dealing with customer complaints as required under subsection 455(1) of the *Bank Act,* and as more fully described under the heading **"Duties"** below.
4. To perform such other duties as are required under the *Bank Act* or by the Office of the Superintendent of Financial Institutions, or as may from time to time be assigned by the Board.
5. To monitor and fulfill the compliance requirements of the Bank in respect of the Financial Consumer Agency of Canada.

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6. To act as the Conduct Review Committee for any federally chartered Canadian financial institution beneficially owned by the Bank as determined by the Board.

E. Duties

1. Establish criteria for determining whether the value of transactions with related parties of the Bank is nominal or immaterial to the Bank;

2. Approve the terms and conditions of:

   - loans, other than margin loans, to senior officers of the Bank on terms and conditions more favourable to the senior officers than those offered to the public;

   - loans to spouses of senior officers of the Bank on the security of mortgages of the principal residences of such spouses on terms and conditions more favourable than those offered to the public;

3. Approve the practice of the Bank making financial services, other than loans or guarantees, available to senior officers of the Bank or to spouses, or children who are less than 18 years of age of senior officers of the Bank, on terms and conditions more favourable than those offered to the public, provided the financial services are offered by the Bank to its employees on those favourable terms and conditions;

4. Require Bank management to establish procedures to enable the Bank to verify that its transactions with related parties of the Bank comply with Part XI of the *Bank Act* and to review those procedures. These procedures should, among other things, enable management to verify that:

   - all related party transactions are on terms and conditions at least as favourable to the Bank as market terms and conditions, other than transactions referred to in clauses 2 and 3 above; and

   - loans to full-time senior officers, other than margin loans and mortgages on their principal residences, do not exceed the greater of twice their annual salaries and $100,000; and

   - aggregate loans or guarantees to, and investments in the securities of any related party (subject to certain exceptions) do not exceed *2%* of the Bank's regulatory capital unless the approval of 2/3 of the Board has been obtained; and

   - aggregate loans or guarantees to, and investments in the securities of all related parties (subject to certain exceptions) do not exceed 50% of the Bank's regulatory capital;

5. Review the practices of the Bank to identify any transactions with related parties of the Bank that may have a material effect on the stability or solvency of the Bank;

6. Monitor the procedures established by the Board to resolve conflicts of interest, including techniques for the identification of potential conflict situations, and to restrict the use of confidential information;

7. Monitor the procedures established by the Board to provide disclosure to customers of the Bank of information that is required to be disclosed by the *Bank Act,* and for dealing with and reporting complaints made by customers of the Bank who have requested or received products or services in Canada and to satisfy itself that these procedures are being adhered to by the Bank;

F. Reporting

After each meeting of the Committee, the Committee is required to report to the Board on matters reviewed by the Committee.

The Chair of the Committee shall review, for completeness, the Board's report with respect to conduct review matters to the Superintendent of Financial Institutions on the Committee's activities during the year. This report must be filed within 90 days after the Bank's financial year-end.

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The Committee shall review and assess the adequacy of this Charter on an annual basis and report the results of this review to the Corporate Governance and Pension Committee of the Board.

G. Composition

Structure

The Committee shall consist of a minimum of 3 Directors, a majority of whom shall be resident Canadians.

Each member must be financially literate or become financially literate within a reasonable period of time subsequent to his/her appointment to the Committee. At least one member must be a financial expert.

Independence

No member of the Committee may be a current or former officer or employee of the Bank or of any of its subsidiaries or affiliates. No member may be a person who is affiliated with the Bank or of any of its subsidiaries or affiliates or related as determined by the Board for the purposes of the TSX Guidelines on Corporate Governance or the NYSE Corporate Governance Listing Requirements. No member may hold 5% or more of the voting shares of the Bank.

Directors' fees (annual retainer and/or attendance fees) are the only compensation a member of the Committee may be paid by the Bank.

Appointment of Committee Members

Members of the Committee are appointed or reappointed annually by the Board, such appointments to take effect immediately following the annual meeting of the shareholders of the Bank. Members of the Committee shall hold office until their successors are appointed, or until they cease to be Directors of the Bank.

Vacancies

Vacancies may be filled for the remainder of the current term of appointment of members of the Committee by the Board, subject to the requirements under the headings "Structure" and "Independence" above.

Appointment and Qualifications of Committee Chair

The Board shall appoint from the Committee membership, a Chair for the Committee to preside at meetings. In the absence of the Chair, one of the other members of the Committee present shall be chosen by the Committee to preside at that meeting.

The Chair for the Committee must have all of the qualifications for Committee membership and have accounting or related financial management expertise.

H. Meetings

Calling of Meetings

Meetings of the Committee may be called by the Chair, by any member of the Committee or the external auditors. Members may participate in meetings in person or by telephone, electronic or other communications facilities.

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The Committee shall not transact business at a meeting unless a majority of the members present are resident Canadians except where:

- a resident Canadian member who is unable to be present approves in writing or by telephone, electronic or other communications facilities the business transacted at the meeting; and
- a resident Canadian majority of members would have been present if the absent member had been present.

Written resolutions in lie of a meeting are not permitted.

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

The Committee may invite any director, officer or employee or any other person to attend meetings to assist the Committee with its deliberations.

Notice of Meetings

Notice of meeting of the Committee shall be sent by prepaid mail, by personal delivery or other means of transmitted or recorded communication or by telephone at least 12 hours before the meeting to each member of the Committee at the member's address or communication number last recorded with the Secretary. A Committee member may in any manner waive notice of a meeting of the Committee and attendance at a meeting is a waiver of notice of the meeting, except where a member attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called.

Notice to the Internal Auditor and External Auditor(s)

The Chief Internal Auditor and the external auditor(s) are entitled to receive notice of every meeting of the Committee and, at the expense of the Bank, to attend and be heard at each meeting and to have the opportunity to discuss matters with the independent directors, without the presence of management.

Frequency

The Committee shall meet at least quarterly.

Quorum

The quorum for a meeting of the Committee shall be 40% of the number of members, subject to a minimum of 2 members.

Secretary and Minutes

The Secretary or, in the absence of the Secretary, an Assistant Secretary of the Bank shall act as Secretary of the Committee.

Minutes of meetings of the Committee shall be recorded and maintained by the Secretary and subsequently presented to the Committee and to the Board, if required by the Board.

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Forward-Looking Statements

This document includes forward-looking statements which are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. These statements include comments with respect to our objectives, strategies, expected financial results (including those in the area of risk management), and our outlook for our businesses and for the Canadian, U.S. and global economies. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intent," "estimate," "may increase," "may fluctuate," and similar expressions of future or conditional verbs such as "will," "should," "would" and "could."

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. The Bank cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services; the Bank's ability to complete and integrate acquisitions; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; consolidation in the Canadian financial services sector; changes in tax laws; competition; judicial and regulatory proceedings; acts of God, such as earthquakes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements.

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

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

[December 17, 2004]

>FINANCIAL HIGHLIGHTS

As at and for the years ended October 31	2004	2003	2002[1]	2001	2000
Operating results ($ millions)					
Net interest income (TEB [2])	6,139	6,428	6,943	6,430	5,393
Total revenue (TEB[2])	10,459	10,443	10,885	10,501	9,058
Provision for credit losses	390	893	2,029	1,425	765
Non-interest expenses	5,862	5,731	5,974	5,662	5,119
Provision for income taxes (TEB [2])	1,067	1,062	869	1,106	1,184
Net income	2,931	2,477	1,797	2,169	1,926
Net income available to common shareholders	2,892	2,406	1,692	2,061	1,818
Operating performance					
Basic earnings per share[3] ($)	2.87	2.38	1.68	2.06	1.83
Diluted earnings per share[3] ($)	2.82	2.34	1.65	2.02	1.81
Return on equity (%)	19.9	17.6	13.0	17.3	17.6
Productivity ratio (%)(TEB [2])	56.0	54.9	54.9	53.9	56.5
Net interest margin on total average assets(%)(TEB [2])	2.16	2.23	2.34	2.37	2.26
Balance sheet information ($ millions)					
Cash and securities	75,928	83,773	76,467	73,444	60,130
Loans and acceptances	178,854	178,478	194,070	184,733	175,710
Total assets	279,212	285,892	296,380	284,425	253,171
Deposits	195,196	192,672	195,618	186,195	173,900
Preferred shares	550	800	1,275	1,775	1,775
Common shareholders' equity	14,685	13,814	13,502	12,833	11,200
Assets under administration	156,800	161,974	144,433	153,110	156,668
Assets under management	21,225	19,964	21,472	21,942	18,797
Capital measures (%)					
Tier 1 capital ratio	11.5	10.8	9.9	9.3	8.6
Total capital ratio	13.9	13.2	12.7	13.0	12.2
Common equity to risk-weighted assets	9.9	9.2	8.6	8.1	7.3
Tangible common equity to risk-weighted assets [4]	9.7	8.9	8.3	7.8	7.0
Risk-weighted assets ($ millions)	150,549	154,523	165,417	164,755	156,112
Credit quality					
Net impaired loans after specific allowance[5] ($ millions)	879	1,522	2,095	1,734	1,239
General allowance for credit losses ($ millions)	1,375	1,475	1,475	1,475	1,300
Net impaired loans as a % of loans and acceptances [5]	0.49	0.85	1.08	0.94	0.71
Specific provision for credit losses as a % of average loans and acceptances	0.27	0.48	1.05	0.68	0.46
Common share information					
Share price[3] ($)					
High	40.00	33.70	28.10	25.25	22.83
Low	31.08	22.28	21.01	18.65	13.03
Close	39.60	32.74	22.94	21.93	21.75
Shares outstanding [3] (millions)					
Average – Basic	1,010	1,010	1,009	1,001	991
Average – Diluted	1,026	1,026	1,026	1,018	1,003
End of period	1,009	1,011	1,008	1,008	996
Dividends per share [3] ($)	1.10	0.84	0.73	0.62	0.50
Dividend yield (%)	3.1	3.0	3.0	2.8	2.8
Dividend payout ratio[6] (%)	38.4	35.3	43.2	30.1	27.3
Market capitalization ($ millions)	39,937	33,085	23,129	22,091	21,661
Book value per common share [3] ($)	14.56	13.67	13.39	12.74	11.25
Market value to book value multiple	2.7	2.4	1.7	1.7	1.9
Price to earnings multiple (trailing 4 quarters)	13.8	13.8	13.7	10.6	11.9
Other information					
Employees	43,928	43,986	44,633	46,804	40,946
Branches and offices	1,871	1,850	1,847	2,005	1,695

(1) In 2002, the Bank incurred a loss of $540 million (after tax) following the extraordinary political and economic crisis in Argentina and the effect that this had on the Bank's exposures related to Argentina. This reduced earnings per share by $0.53 and return on equity by 360 basis points.

(2) Taxable equivalent basis. Refer to the non-GAAP measures on page 33.

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

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

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

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

PERFORMANCE VS. TARGET	2004		2005
	Target	Performance	Target
Return on Equity (ROE)			
Earn a return on equity of:	16-19%	19.9%	17-20%
ROE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing net income available to common shareholders by average common shareholders' equity.			
Earnings per Share (EPS)			
Generate growth in earnings per common share of:	10-15%	20.5%	5-10%
EPS is the net income a company has generated per common share. It is calculated by dividing net income available to common shareholders by the average number of common shares outstanding.			
Productivity			
Maintain a productivity ratio of:	Below 58%	56.0%	Below 58%
The productivity ratio measures the overall efficiency of the Bank. 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 better productivity.			
Tier 1 Capital			
The Tier 1 capital ratio is a measure of the Bank's overall strength. It is calculated by dividing Tier 1 capital by risk-weighted assets.	Maintain strong capital ratios	11.5%	Maintain strong capital ratios

Financial Results

Scotiabank had an excellent year in 2004, exceeding all of its financial targets. We succeeded in earning through the substantial negative effect of foreign currency translation, as the Canadian dollar appreciated against virtually all currencies.

Net income was a record $2,931 million, a substantial increase of $454 million or 18% over last year. Earnings per share (diluted) was $2.82, up from $2.34 in 2003. Return on equity was very strong at 19.9%.

Credit quality in the corporate loan portfolio improved significantly, leading to a $503 million decline in the total provision for credit losses.

Total revenues were virtually unchanged from last year, including the effect of foreign currency translation. Net interest income fell 4%, as the negative effect of foreign currency translation, a reduction in corporate loan volumes and a slight compression in the overall margin more than offset extremely robust retail loan growth. Non-interest revenues rose 8%, as securities gains and strong growth in retail fees and commissions more than offset declines in credit fees and investment banking and trading revenues.

Expenses rose 2% over last year. The growth was tempered by the effect of foreign currency translation. Most of the increase was related to growth in business volumes, as well as higher performance and stock-based compensation. Our overall productivity ratio remained the best in the industry at 56.0%, but deteriorated slightly from last year due to more modest revenue growth.

Our overall tax rate fell as Canadian corporate tax rates declined, and we earned more tax-exempt dividend income.

We continue to generate significant capital from operations, and our Tier 1 capital ratio, at 11.5%, remains among the highest of the major Canadian banks. More important, our tangible common equity ratio was up 80 basis points to 9.7%, the strongest of the major Canadian banks.

Non-GAAP Measures

The Bank, like many banks, analyzes revenues, net interest margin, and the productivity ratio, on a taxable equivalent basis (TEB). This methodology grosses up the tax-exempt income earned on certain securities and recorded in the financial statements on a GAAP basis, to an equivalent before-tax basis. The corresponding offset is made in the provision for income taxes. Management believes that this basis for measurement provides a uniform comparability of net interest income arising from both taxable and non-taxable sources and facilitates a consistent basis of measurement. This use of TEB results in measures that are different from comparable GAAP measures, and may not be the same as measures presented by other companies. The amount of the taxable equivalent adjustment was $274 million in 2004, compared to $278 million last year.

Strong Shareholder Returns

Scotiabank shareholders continued to benefit from our strong financial performance. Total return (including both dividends and appreciation of the price of the Bank's common shares) was 25% in 2004. This was the tenth consecutive year of positive shareholder returns, the best record among Canada's major banks.

This performance, a result of our continued focus on generating sustainable earnings growth, continues to drive long-term shareholder returns. The compound annual return to shareholders averaged 22% over the past five years and 23% over the past 10 years. We continue to substantially outperform the S&P/TSX Composite Index.

For the financial years (%)	2004	2003	2002	2001	2000
Annual return	24.7	46.8	7.8	3.7	33.3
Five-year return (annualized)	22.2	18.6	11.1	18.9	28.4

Shareholders received two dividend increases in 2004. As a result, dividends per share rose year over year by 31% to $1.10. The Bank also declared a stock dividend to effect a two-for-one split of our common shares.

Impact of Foreign Currency Translation

Foreign currency translation had a significant negative effect on the Bank's earnings in 2004. This arose from the ongoing strengthening of the Canadian dollar by 9% versus the U.S. dollar, 17% versus the Mexican peso and against many other currencies in which the Bank conducts its business.

Changes in the average exchange rates between 2003 and 2004 affected 2004 net income as follows:

Average exchange rate	2004	2003
U.S. dollar/Canadian dollar	0.7586	0.6936
Mexican peso/Canadian dollar	8.5968	7.3388

Impact on income ($ millions)	2004 vs. 2003
Net interest income	$ (321)
Other income	(212)
Non-interest expenses	227
Other items (net of tax)	96
Net income	$ (210)

The above-noted impact on net income was moderated somewhat by actions taken by management.

Net Income

Scotiabank had another record year in 2004, with net income of $2,931 million, a substantial increase of $454 million or 18% over 2003. The increase was driven by significantly lower credit losses and higher securities gains, as well as business growth in several areas. These were partly offset by a narrower margin, declining volumes in corporate lending and the negative impact of foreign currency translation as noted on the previous page.

Total Revenue

Total revenues (on a taxable equivalent basis) were $10,459 million in 2004, which was up marginally from the prior year. Contributing to the growth were higher results in the Bank's domestic operations as well as an increase in securities gains, along with higher local currency results in International Banking, particularly in Mexico and several countries in the Caribbean. These were offset by the negative effect of foreign currency translation, lower corporate loan balances and credit fees and a decline in the net interest margin. Overall, total underlying revenue in the Bank grew by 5%. There was also a negative impact from the implementation this year of the new accounting standard for hedging relationships (AcG 13). Under this standard, derivatives that do not meet specific criteria for designation as hedges are marked to market, and gains or losses are taken into income in the current year.

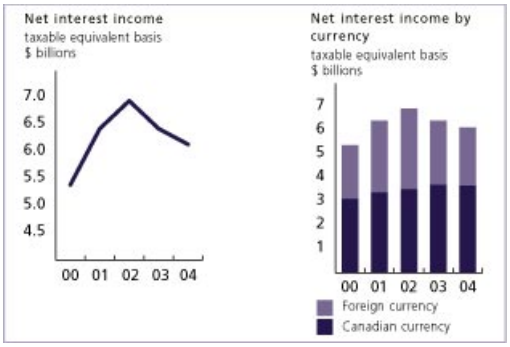
Net Interest Income

Net interest income (on a taxable equivalent basis) was $6,139 million in 2004, down $289 million from last year, due primarily to the effect of foreign currency translation. Underlying net interest income rose by $32 million.

The Bank's net interest margin (net interest income as a percentage of average assets) was 2.16% in 2004, a decrease of seven basis points from the previous year. This was largely due to a decline in the Canadian currency margin.

Canadian currency net interest income was $3,684 million in 2004, a decrease of $36 million from the prior year. The effect of an 8% increase in average assets was more than offset by a compression in the net interest margin. The narrower margin was largely the result of low interest rates during the year and competitive pressures, particularly in retail mortgages.

Foreign currency net interest income was $2,455 million this year, $253 million below 2003, due entirely to the effect of foreign currency translation. Local currency net interest income rose by $68 million or 3%, largely from strong growth in International Banking, particularly the Caribbean and Scotia-bank Inverlat in Mexico. This was partly offset by a decline in net interest income from the Bank's corporate business in the U.S. and Europe, where asset levels continued to fall.



Outlook

Canadian currency net interest income is expected to increase next year, mainly from asset growth. On the foreign currency side, it is expected that the stronger Canadian dollar will continue to have a negative foreign currency translation impact. However, underlying local currency growth is expected in most of the Bank's international operations, and in Scotia Capital's U.S. operations.

Table 1 Average balance sheet and interest margin [1]

Taxable equivalent basis [2] For the fiscal years ($ billions)	2004 Average balance	2004 Average rate	2003 Average balance	2003 Average rate
Assets				
Deposits with banks	$ 16.8	2.62%	$ 16.2	2.72%
Securities	63.4	4.63	58.3	5.38
Loans:				
Residential mortgages	64.5	5.39	57.9	5.93
Personal and credit cards	28.0	7.38	24.5	8.09
Business and governments	57.9	5.07	67.3	5.44
Securities purchased under resale agreements	20.2	2.94	27.8	3.13
	170.6	5.32	177.5	5.60
Total earning assets	250.8	4.96	252.0	5.37
Customers' liability under acceptances	7.1	–	8.0	–
Other assets	26.1	–	28.5	–
Total assets	$284.0	4.38%	$288.5	4.69%
Liabilities and shareholders' equity				
Deposits:				
Personal	$ 78.0	2.66%	$ 75.9	2.93%
Business and governments	94.5	2.46	89.3	2.88
Banks	23.7	1.65	25.2	1.70
	196.2	2.44	190.4	2.74
Obligations related to securities sold under repurchase agreements	23.4	3.27	30.8	3.54
Subordinated debentures	2.7	4.20	3.2	4.35
Other interest-bearing liabilities	14.6	4.43	15.5	4.17
Total interest-bearing liabilities	236.9	2.66	239.9	2.96
Other liabilities including acceptances	32.0	–	33.9	–
Shareholders' equity	15.1	–	14.7	–
Total liabilities and equity	$284.0	2.22%	$288.5	2.46%
Net interest margin		2.16%		2.23%

(1) Average of daily balances.

(2) Refer to the non-GAAP measures on page 33.

Table 2 Volume/rate analysis of changes in net interest income

Taxable equivalent basis [1] For the fiscal years ($ millions)	2004 versus 2003 Increase (decrease) due to change in: Average volume	Average rate	Net change	2003 versus 2002 Increase (decrease) due to change in: Average volume	Average rate	Net change
Net interest income						
Assets	$ (212)	$ (861)	$ (1,073)	$ (411)	$ (701)	$(1,112)
Liabilities and shareholders' equity	111	673	784	216	381	597
Total	$ (101)	$ (188)	$ (289)	$ (195)	$ (320)	$ (515)

(1) Refer to the non-GAAP measures on page 33.

Other Income

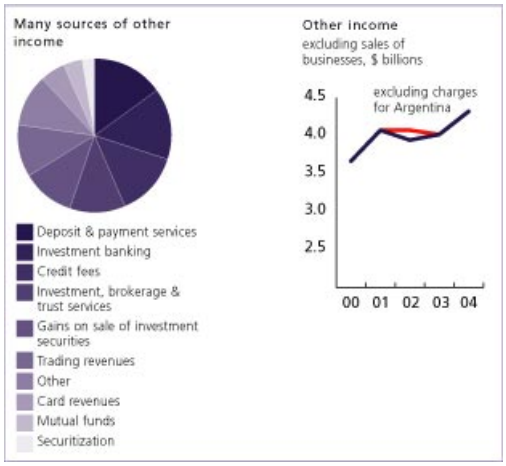
Other income was $4,320 million in 2004, an increase of $305 million or 8% from 2003, despite a reduction of $212 million from foreign currency translation. The underlying year-over-year increase in other income was substantially higher at 13%.

Card revenues of $231 million rose by 13% in 2004. Excluding the 2004 reclassification of ScotiaGold benefits to operating expenses, the sale of Inverlat's point of sale business and the effect of foreign currency translation, card revenues increased by 21%. This reflected the maturity of certain credit card securitizations, growth in transaction volumes and expansion of the commercial card program.

Revenues from deposit and payment services, which represent revenues earned from retail, commercial and corporate customers, were $53 million or 9% higher than 2003. This growth arose from pricing changes, volume growth and new initiatives, such as the ABM alliance with Shell Canada. Partly mitigating this growth was the effect of foreign currency translation on revenues in International Banking.

Mutual fund fees increased by $10 million or 6% in 2004, in line with the growth in our mutual fund assets in Canada.

Revenues from investment management, brokerage and trust services were $504 million, an increase of $49 million or 11% from last year. This was entirely from higher commissions in both full-service retail brokerage and direct investing, as an improvement in equity markets resulted in higher client trading activity, particularly in the first half of the year.



Credit fees declined by $101 million or 15% to $583 million in 2004. About one quarter of the decrease was due to the effect of foreign currency translation on U.S. dollar fees. The balance of the decline was a result of lower loan utilization, reflecting weak market demand for corporate loans, particularly in the U.S. and Europe.

Trading revenues of $476 million were $25 million below last year, largely from the negative effect of foreign currency translation. Record results were achieved in precious metals and foreign exchange trading, while revenues declined in fixed income, reflecting challenging bond market conditions.

Investment banking revenues were $648 million in 2004, a decrease of $25 million from last year. Underwriting revenues were slightly lower than last year's record results, as markets for new issues remained buoyant, and institutional brokerage commissions rose 13%. As well, option premiums, which were reported in investment banking in 2003, are reported in net gain on investment securities in 2004.

Net gain on the sale of investment securities increased a substantial $318 million to $477 million in 2004, primarily from higher gains on the sale of equities and strong returns on private equity fund investments. Equity gains included a $125 million pre-tax gain on the sale of one-third of the Bank's investment holding in Shinsei Bank in Japan.

Securitization revenues fell by $29 million during the year, largely from the maturity of certain credit card, mortgage and revolving credit securitizations. The decline in this category was offset by increases in other fee-based revenues and net interest income. Miscellaneous revenues reported in "other" were up modestly from 2003.

Outlook

We expect growth in most revenue categories in 2005, except in gains on investment securities, where the exceptional revenues earned in 2004 are not expected to be repeated. As well, the ongoing appreciation of the Canadian dollar is anticipated to continue to mitigate year-over-year growth.

Table 3 Other income

For the fiscal years ($ millions)	2004	2003	2002	2001	2000	2004 versus 2003
Card revenues	$ 231	$ 204	$ 280	$ 211	$ 116	13%
Deposit and payment services						
Deposit services	536	479	445	456	433	12
Other payment services	110	114	111	105	75	(3)
	646	593	556	561	508	9
Mutual funds	171	161	174	161	131	6
Investment management, brokerage and trust						
Retail brokerage	335	280	304	317	389	20
Investment management and custody	53	53	32	33	85	–
Personal and corporate trust	116	122	137	127	128	(5)
	504	455	473	477	602	11
Credit fees						
Commitment and other credit fees	477	565	540	504	512	(16)
Acceptance fees	106	119	131	136	120	(11)
	583	684	671	640	632	(15)
Trading revenues	476	501	439(1)	447	326	(5)
Investment banking						
Underwriting fees and other commissions	477	472	405	352	278	1
Foreign exchange and other	171	201	187	246	152	(15)
	648	673	592	598	430	(4)
Net gain on investment securities	477	159	179(1)	217	358	100+
Securitization revenues	111	140	162	220	206	(21)
Other	473	445	317(1)	447	274	6
Total before the undernoted	4,320	4,015	3,843	3,979	3,583	8
Gains on sale of businesses	–	–	99	92	82	–
Total other income	$4,320	$4,015	$3,942	$4,071	$3,665	8%
Percentage increase (decrease) over previous year	8%	2%	(3)%	11%	15%	

(1) The following items were affected by Argentine charges – trading revenues included a gain of $4, net gain on investment securities included a charge of $20 and other included a charge of $87.

Table 4 Trading revenue

Taxable equivalent basis For the fiscal years ($ millions)	2004	2003	2002	2001	2000
Reported in other income					
Securities trading	$ 40	$ 78	$ (36)	$ 92	$108
Foreign exchange and precious metals trading	306	281	257	216	148
Derivative and other trading	130	142	218	139	70
	476	501	439	447	326
Reported in net interest income	287	301	337	190	126
Total trading revenue	$763	$802	$776	$637	$452
% of total revenues (net interest income plus other income)	7.3%	7.7%	7.1%	6.1%	5.0%

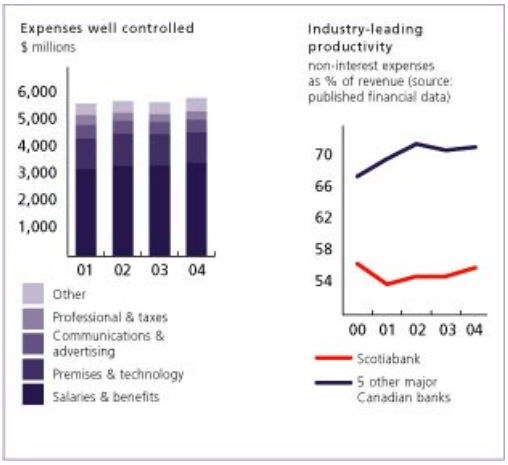
Non-interest expenses

Non-interest expenses were $5,862 million in 2004, an increase of $131 million or 2% from last year, which was moderated by the effect of foreign currency translation. Underlying expenses grew by 6% over 2003.

Salaries and employee benefits rose 3% during the year, tempered by the effect of foreign currency translation. Underlying growth was 6%, with several factors contributing to this increase, including normal growth in employee salaries and an increase in stock-based compensation following the 21% increase in the Bank's share price during the year. This was partly offset by hedging activity. As well, there was higher performance-based compensation in Scotia Capital and full-service retail brokerage. Pensions and other employee benefits were also up over last year, primarily due to the effect of higher benefit obligations resulting from a decline in interest rates.

Premises and technology expenses fell by $17 million or 1%. However, excluding the effect of foreign exchange translation, and the impact of implementing a new accounting standard for the capitalization of software development costs this year, expenses rose by 5%. The largest contributor to this growth was the full impact of outsourcing the Bank's cheque processing operations to Symcor in 2003. These outsourcing expenses are now reported in technology spending rather than in various other categories, such as salary expenses. As well, the Bank continued to make investments in new systems in each of the three business lines — Domestic Banking, Scotia Capital and International Banking.

In 2004, mortgage appraisal and acquisition costs were up $23 million or 28%, in line with higher mortgage volumes. There were smaller increases in other expense categories, mainly due to increased advertising to support business growth, more training, higher professional fees and the 2004



reclassification of ScotiaGold benefits to operating expenses from other income.

Our productivity ratio — a measure of efficiency in the banking industry — was 56.0% for the year and remained better than our target of 58%.

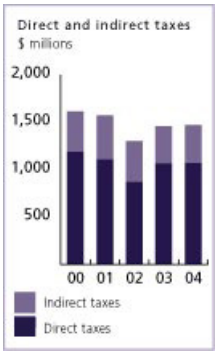
Outlook

Given the moderate growth in revenues expected in 2005, our focus on cost control will be a continuing priority. While some growth in operating expenses is likely, our productivity ratio is expected to remain below our target of 58%.

Taxes

The Bank pays a large number of taxes, which include direct taxes on income by Canadian federal and provincial governments and the governments of foreign jurisdictions in which the Bank operates, and several indirect taxes.

In 2004, the provision for income taxes and other taxes amounted to $1.5 billion, in line with the prior year.



The provision for income taxes was virtually unchanged, in spite of higher pre-tax income. This was due to a 1.2% reduction in Canadian federal and provincial tax rates, and an increase in tax-exempt dividend income. As well, Scotiabank Inverlat benefited from the utilization of previously unrecognized tax loss carryforwards. As a result, the Bank's overall effective tax rate for the year was 20.1%, down from 22.2% last year.

Indirect taxes, which include payroll taxes, capital taxes, business taxes, deposit insurance premiums and other smaller items, amounted to $402 million in 2004, up marginally from last year.

Outlook

In 2005, the Bank's effective tax rate should remain in the range of 20 to 25%, though it may vary on a quarterly basis.

Non-controlling interest

The deduction for non-controlling interest in the income of subsidiaries was $209 million, a decline of $71 million from 2003, due mainly to the increase in the Bank's ownership of Scotiabank Inverlat to 97% during the year. This reduction was partly offset by the impact of the issuance of the Scotiabank Trust Securities ("Scotia BaTS") on February 13, 2003. As these Scotia BaTS represent Tier 1 regulatory capital, the Bank was able to redeem certain preferred shares last year. Accordingly, the increase in costs related to the Scotia BaTS was entirely offset by lower preferred share dividends.

Table 5 Non-interest expenses and productivity

For the fiscal years ($ millions)	2004	2003	2002	2001	2000	2004 versus 2003
Salaries and employee benefits						
Salaries	$2,924	$2,921	$2,925	$2,856	$2,594	–%
Pensions and other employee benefits	528	440	419	364	350	20
	3,452	3,361	3,344	3,220	2,944	3
Premises and technology						
Net premises rent	170	180	192	200	179	(6)
Premises repairs and maintenance	46	44	53	49	39	5
Property taxes	58	56	57	59	55	4
Computer equipment, software and data processing	509	498	456	404	309	2
Depreciation	189	208	243	243	267	(9)
Other premises costs	167	170	182	178	146	(2)
	1,139	1,156	1,183	1,133	995	(1)
Communications						
Telecommunications	63	68	74	75	62	(7)
Stationery, postage and courier	185	183	207	210	190	1
	248	251	281	285	252	(1)
Advertising and business development						
Advertising and promotion	113	103	105	118	90	10
Travel and business development	97	96	103	99	86	1
	210	199	208	217	176	6
Professional	163	141	136	157	150	15
Business and capital taxes						
Business taxes	89	90	118	121	83	(1)
Capital taxes	53	54	50	87	93	(2)
	142	144	168	208	176	(1)
Other						
Employee training	43	37	42	43	34	15
Amortization of goodwill and other intangibles	27	29	28	52	28	(6)
Other	438	382	347	347	398	15
	508	448	417	442	460	13
Total before the undernoted	5,862	5,700	5,737	5,662	5,153	3
Loss on disposal of subsidiary operations[1]	–	31	237	–	–	(100)
Restructuring provisions following acquisitions	–	–	–	–	(34)	–
Total non-interest expenses	$5,862	$5,731	$5,974	$5,662	$5,119	2%
Productivity ratio (TEB)[2]	56.0%	54.9%	54.9%	53.9%	56.5%	

(1) Refer to Note 23 on page 119.

(2) Taxable equivalent basis. Refer to the non-GAAP measures on page 33.

Table 6 Taxes

For the fiscal years ($ millions)	2004	2003	2002	2001	2000	2004 versus 2003
Income taxes						
Provision for income taxes[1]	$ 793	$ 784	$ 601	$ 876	$ 990	1%
Taxable equivalent adjustment[2]	274	278	268	230	194	(1)
Provision for income taxes (TEB)[2]	1,067	1,062	869	1,106	1,184	–
Other taxes						
Payroll taxes	139	139	149	149	146	–
Business and capital taxes	142	144	168	208	176	(1)
Goods and services and other	121	110	114	110	107	11
Total other taxes	402	393	431	467	429	2
Total taxes[3]	$1,469	$1,455	$1,300	$1,573	$1,613	1%

(1) Includes provision for (recovery of) income tax related to Argentine charges of nil (2003 – $3; 2002 – $(254); 2001 – $(38)). Refer to Note 23 on page 119.

(2) Taxable equivalent basis. Refer to the non-GAAP measures on page 33.

(3) Comprised of $917 of Canadian taxes (2003 – $960; 2002 – $818; 2001 – $1,043; 2000 – $1,175) and $552 of foreign taxes (2003 – $495; 2002 – $482; 2001 – $530; 2000 – $438).

Credit Quality

Impaired loans

Net impaired loans after deducting only the specific allowance for credit losses were $879 million at October 31, 2004, a significant improvement of $643 million from a year ago, of which $74 million was due to the effect of foreign currency translation. After also deducting the general allowance for credit losses, net impaired loans were $(496) million compared to $47 million last year. The largest decline was in Scotia Capital, reflecting better credit conditions in the U.S., Canadian and European loan portfolios. There were also improvements in the commercial portfolio in Canada, and in International, partly due to the effect of foreign currency translation.

As shown in the chart at the right, net impaired loans as a percentage of loans and acceptances were 0.49% at October 31, 2004, much lower than 0.85% a year ago.

In Canada, gross impaired loans in Domestic Banking fell modestly, as the Bank took action on a number of loans in the commercial portfolio.

In International Banking, the portfolio remained in good condition. Gross impaired loans declined by $319 million. Of this decline, $238 million was in Latin America, reflecting a lower level of problem loans in Mexico, Chile and El Salvador. In Mexico, part of the decline came from a 2004 change in the classification criteria for residential mortgages.

Most notably, gross impaired loans in Scotia Capital's U.S. portfolio fell by $383 million to $701 million. Large declines were also evident in Europe, where balances declined by $174 million to $212 million, and in Canada, with balances falling by $147 million to $52 million.

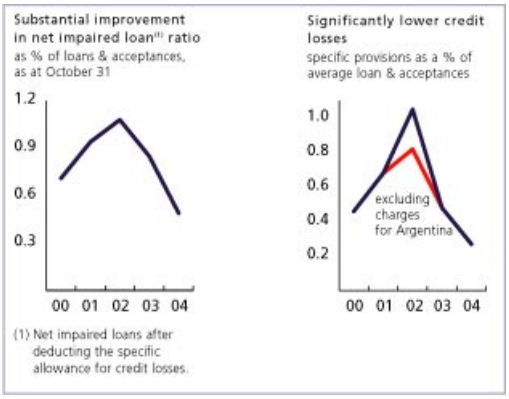
Specific provision for credit losses

In 2004, the specific provision for credit losses was $490 million, a significant improvement from $893 million in 2003 ($957 million excluding the reversal of provisions related to Argentine cross-border loans). Most of this improvement was in the corporate portfolio, reflecting better credit conditions prevailing throughout 2004.

Domestic Banking provisions were $317 million, an increase of $45 million from last year. Most of this growth was in the commercial portfolio to provide for a small number of accounts that deteriorated during the year. Despite this, credit quality remained strong in commercial banking. The balance related to growth in the retail loan portfolio, where provisions remained low at 0.23% of average assets, an improvement of 3 basis points from 2003.

In International Banking, provisions of $70 million were $3 million below last year. However, excluding the reversals of $64 million in 2003 related to Argentine cross-border loans, provisions declined by $67 million year over year. This arose from lower levels of provisioning in the Caribbean and Chile.

In Scotia Capital, specific provisions were $106 million, a substantial decline of $443 million from 2003. This reduction was across all the portfolios, including $216 million in the U.S., $138 million in Canada and $89 million in Europe. These declines were due to fewer new problem loans, partially offset by lower provision reversals in 2004 compared to the previous year. Overall, better credit conditions, including more robust capital markets, prevailed in 2004.



General allowance

During 2004, the general allowance for credit losses was reduced by $100 million to $1,375 million at October 31, 2004, or 0.91% of risk-weighted assets. The lower levels of corporate and commercial loans, and the improved credit quality of these portfolios were the primary reasons for this reduction. The positive aspects of these factors were tempered by concerns about the potential impact on the loan portfolio of rising energy prices and the substantial strengthening of the Canadian dollar.

Outlook

While we expect specific provisions for credit losses in 2005 to be generally in line with those incurred in 2004, there may be some volatility on a quarterly basis.

As well, if there is sustained improvement in credit quality of the commercial and corporate portfolios, the general allowance may be further reduced in 2005.

Table 7 Impaired loans by business line

As at October 31 ($ millions)	2004 Net	2004 Allowance for credit losses	2004 Gross	Gross Impaired Loans 2003	2002	2001	2000
Domestic							
Retail	$ 78	$ (189)	$ 267	$ 292	$ 287	$ 258	$ 270
Commercial	51	(119)	170	184	225	332	343
	129	(308)	437	476	512	590	613
International[1]							
Latin America	(21)	(390)	369	607	995	1,587	432
Caribbean	172	(120)	292	305	329	283	261
Asia	49	(84)	133	142	164	302	341
Europe	1	(3)	4	63	84	63	66
	201	(597)	798	1,117	1,572	2,235	1,100
Scotia Capital							
Canada	15	(37)	52	199	127	203	111
United States	442	(259)	701	1,084	1,688	1,280	865
Other	92	(120)	212	386	113	156	76
	549	(416)	965	1,669	1,928	1,639	1,052
Gross impaired loans			2,200	3,262	4,012	4,464	2,765
Allowance for credit losses – specific and country risk[1]		(1,321)		(1,740)	(1,917)	(2,730)	(1,526)
	$ 879			$ 1,522	$ 2,095	$ 1,734	$ 1,239
Allowance for credit losses – general	(1,375)	(1,375)		(1,475)	(1,475)	(1,475)	(1,300)
Net impaired loans after general allowance	$ (496)			$ 47	$ 620	$ 259	$ (61)
Net impaired loans[2] as a % of loans and acceptances	0.49%			0.85%	1.08%	0.94%	0.71%
Specific allowance[1] for credit losses as a % of gross impaired loans	60%			53%	48%	61%	55%

(1) Prior years' numbers include designated emerging market gross impaired loans and offsetting country risk allowance as follows: 2003 – $21; 2002 – $25; 2001 – $25; 2000 – $24.

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

Table 8 Provisions for credit losses

For the fiscal years ($ millions)	2004	2003	2002	2001	2000
Specific provisions for credit losses					
Net specific provisions	$ 648	$1,057	$2,198	$1,373	$ 878
Recoveries	(158)	(164)	(169)	(123)	(113)
Net specific provisions for credit losses	490	893[1]	2,029[1]	1,250	765
General provision	(100)	–	–	175	–
Total net provisions for credit losses	$ 390	$ 893	$2,029	$1,425	$ 765

(1) Excluding reversals of credit losses (2002 – provision for credit losses) related to Argentina, net specific provisions were: 2003 – $957; 2002 – $1,575.

Fourth Quarter Results

Net income was $708 million in the fourth quarter, a $48 million or 7% increase from the same quarter in 2003, although $25 million below the third quarter. Foreign currency translation reduced net income by $22 million compared to last year, and $22 million versus last quarter. Underlying net income increased $70 million over last year but was $3 million below last quarter. The year-over-year increase was mainly driven by a decline in credit losses, the Bank's higher ownership of Scotiabank Inverlat, a lower effective tax rate and solid retail asset growth. Partly offsetting this increase were a compression in the margin and lower corporate lending volumes.

Total revenue (on a taxable equivalent basis) was $2,495 million in the fourth quarter, $96 million below the same quarter last year due primarily to the effect of foreign currency translation. Underlying revenues fell $28 million year over year, largely because of a narrower interest margin and a negative impact from the implementation of the new accounting standard for hedging relationships (AcG 13). Total revenues declined $74 million quarter over quarter, due to lower gains on the sale of investment securities, the effect of foreign currency translation and the negative impact of AcG 13.

Non-interest expenses of $1,461 million in the fourth quarter were $33 million or 2% below the same quarter last year, due entirely to the effect of foreign currency translation. Underlying expenses were essentially unchanged year over year. Lower severance and performance-based compensation were offset by higher pension and other benefits, advertising and professional expenses. Quarter over quarter, expenses fell $11 million, due to the effect of foreign currency translation and lower performance-based compensation.

The provision for credit losses was $40 million in the fourth quarter, comprised of specific provisions of $90 million and a reduction of $50 million in the general allowance for credit losses. The specific provisions of $90 million were a significant improvement from $120 million a year ago, largely from lower credit losses in all of the corporate lending portfolios. In Scotia Capital, there was a $25 million net recovery, as previously established provisions were reversed due to higher realizations through loan sales and loans returning to performing status, and there were low levels of new provisions. Compared to the third quarter of 2004, specific provisions fell by $10 million. Each of the third and fourth quarters of 2004 included a reduction of $50 million in the general allowance for credit losses, versus nil last year.

The Bank's effective tax rate was 18.0% in the fourth quarter, a 210 basis point decline from the same quarter last year and 200 basis points below the previous quarter. This was due mainly to higher tax-exempt dividend income.

The deduction for the non-controlling interest in the Bank's net income was $47 million for the fourth quarter, down $20 million from the same quarter last year, and $3 million below the prior quarter. The year-over-year reduction was mainly due to a lower non-controlling interest in Scotiabank Inverlat, as the Bank increased its ownership to 97% this year.

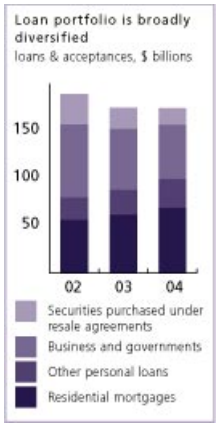
Summary of Quarterly Results

The Bank's results in each quarter of 2004 were above those in the prior year. A major contributing factor was the steady decline in credit losses following improvements in credit markets and the actions taken by the Bank. As well, gains on investment securities were fairly robust during this period but did create some volatility. Other positive factors were solid retail asset growth in Canada and local currency asset growth in the Caribbean and Mexico.

On the negative side, earnings over the past eight quarters were affected by the continued appreciation of the Canadian dollar, the margin compression in Canada and the decline in corporate lending volumes, most notably in the U.S.

An eight-quarter trend in net income and other selected information is provided on page 75.

Assets and Liabilities



Assets

The Bank's total assets decreased year over year by $7 billion or 2% to $279 billion as at October 31, 2004. The effect of foreign currency translation resulted in a reduction in assets of $8 billion. There was underlying asset growth of $1 billion, primarily in residential mortgages and retail lending assets, partly offset by lower securities.

SECURITIES

Securities declined by $4 billion, half of which was due to the effect of foreign currency translation. Investment securities declined $5 billion, as we realized gains on Canadian government securities and sold part of our investment holding in Shinsei Bank in Japan. This was partly offset by growth in Scotiabank Inverlat's trading securities portfolio.

As at October 31, 2004, the surplus of the market value over book value of the Bank's investment securities was $1,048 million, up $345 million from the prior year, due mainly to unrealized gains on the Bank's investment holding in Shinsei Bank.

LOANS

Loans were relatively unchanged year over year, due primarily to the effect of foreign currency translation. Underlying loans rose by $4 billion or 2%, largely driven by record residential mortgage growth of $9 billion, after excluding net increases in loan securitizations of $2 billion. The continued strong housing market, as well as the launch of innovative products, such as the Right Rate Mortgage and the Long and Short blended mortgage, supported by excellent sales efforts across our branches and other distribution networks, were key drivers of this growth.

Other personal and credit cards loans (ScotiaLine and ScotiaLine Visa) in Canada grew by $4 billion. The significant growth in these products resulted in domestic retail lending market share increasing 32 basis points from the prior year — the best year-over-year growth among the major Canadian banks.

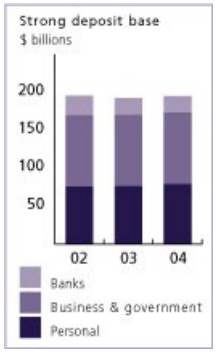
In International Banking, there was solid underlying growth in retail lending assets, particularly in Mexico and the Caribbean, which was moderated by the effect of foreign currency translation.

Business lending fell $7 billion, due in part to the effect of foreign currency translation. As well, there was an underlying decline of $4 billion in the combined U.S. and European corporate loan portfolio as a result of more selective lending and increased liquidity in the capital markets.

Liabilities

The Bank's total liabilities were $264 billion as at October 31, 2004, compared to $271 billion last year. The foreign currency translation effect resulted in a reduction in liabilities of $8 billion. The underlying liabilities were up $1 billion.

DEPOSITS



Deposits increased by $3 billion this year. This growth was dampened by the effect of foreign currency translation. Underlying deposits were up $8 billion or 4%. This included growth of $4 billion in each of personal and business deposits. The former was due to the continued popularity of the *Money Master*® High Interest Savings Account, and the introduction of a registered version of the same account.

Growth in the Canadian dollar business and government deposits of $7 billion was driven by both the new Money Master *for business*™ account, and higher current account deposits, where our market share continued to rise.

Deposits by banks declined $1 billion, due entirely to the effect of foreign currency translation. The underlying deposits increased by $1 billion.

OBLIGATIONS RELATED TO REPURCHASE AGREEMENTS

Obligations related to repurchase agreements are another source of wholesale funding. The year-over-year decline of $9 billion was due in part to a change in the mix of wholesale funding.

Shareholders' Equity

Total shareholders' equity rose by $621 million in 2004, from strong growth in retained earnings of $1.5 billion, partially offset by the net effect of unrealized foreign currency translation losses recorded in shareholders' equity. See the Capital Management section on the following page for more detail on the capital components.

Outlook

For 2005, we are expecting asset growth in Canada to continue, primarily in residential mortgages, though not at the same growth rates as 2004. Outside Canada, growth in local currency assets in most international operations, and a recovery in U.S. corporate lending, is expected to continue to be negatively affected by foreign currency translation.

Table 9 Condensed Balance Sheet

As at October 31 ($ billions)	2004	2003	2002	2001	2000
Assets					
Cash resources	$ 17.1	$ 20.6	$ 20.3	$ 20.2	$ 18.7
Securities	58.8	63.2	56.2	53.3	41.4
Loans	171.8	171.7	185.7	175.4	166.9
Other	31.5	30.4	34.2	35.5	26.2
Total assets	$279.2	$285.9	$296.4	$284.4	$253.2
Liabilities and shareholders' equity					
Deposits	195.2	192.7	195.6	186.2	173.9
Obligations related to securities sold under repurchase agreements	19.4	28.7	31.9	30.6	23.8
Other liabilities	46.8	47.2	50.2	47.7	37.1
Subordinated debentures	2.6	2.7	3.9	5.3	5.4
Total liabilities	$264.0	$271.3	$281.6	$269.8	$240.2
Shareholders' equity	$ 15.2	$ 14.6	$ 14.8	$ 14.6	$ 13.0
Total liabilities and shareholders' equity	$279.2	$285.9	$296.4	$284.4	$253.2

Capital Management

Scotiabank's capital base continues to be very strong. This strength contributes to the Bank's safety, fosters investor confidence, supports high credit ratings, enables the Bank to capitalize on growth opportunities both organically and through acquisitions, and allows us to grow dividends.

Given the importance of the Bank's capital base, close attention is paid to our capital structure, 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 deploy our capital. We continually evaluate and balance the amount of capital required for the business risks being assumed and to meet regulatory requirements, against the need to generate good returns for shareholders.

The components of capital

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

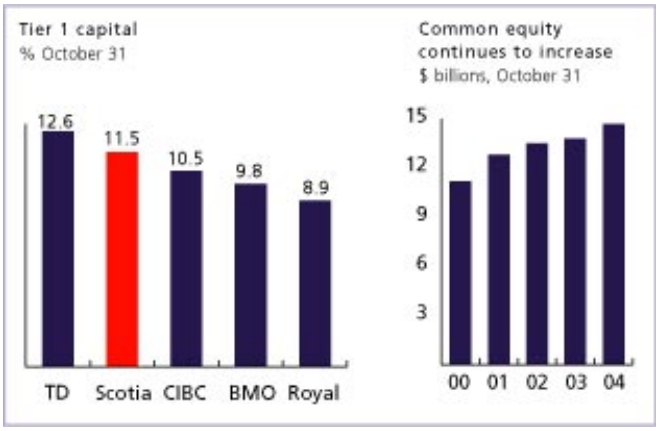
Under these standards, bank regulatory capital consists of two components — Tier 1 capital and Tier 2 capital, the components of which are outlined in the following section. While both components provide important support for banking operations and protection for depositors, Tier 1 capital, representing more permanent forms of capital, is of particular importance to regulators, financial markets and investors.

Certain changes to accounting standards effective November 1, 2004, resulted in some of the Bank's qualifying Tier 1 capital securities being reclassified from shareholders' equity and non-controlling interest in subsidiaries to liabilities on the balance sheet. However, this will not affect the Bank's capital ratios, as OSFI has confirmed that the Bank's existing securities will remain eligible as Tier 1 capital.

Tier 1 Capital

Tier 1 capital consists primarily of common shareholders' equity, trust securities and non-cumulative preferred shares. Tier 1 capital rose to $17.3 billion, an increase of $0.6 billion over last year. Retained earnings grew by $1.5 billion. Strong earnings (net of dividends) of $1.8 billion in 2004 were reduced by the $300 million premium paid on the purchase of common shares and redemption of preferred shares. As well, cumulative unrealized foreign currency translation losses increased by $709 million, caused by further strengthening of the Canadian dollar, and the Series 11 preferred shares of $250 million were redeemed during the year.

Over the past five years, notwithstanding large dividend increases, we have generated $7.1 billion in capital internally, which has been driven by our strong growth in net income. This level of internal capital generation is among the highest of the Canadian banks.



Tier 2 Capital

Tier 2 capital consists mainly of subordinated debentures and an eligible portion of the total general allowance for credit losses. Tier 2 capital decreased marginally in 2004 to $3.8 billion due to a reduction in the portion of subordinate debentures that are eligible for inclusion in Tier 2 capital, as well as from foreign currency translation.

Table 10 Regulatory capital

As at October 31 ($ millions)	2004	2003	2002	2001	2000
Tier 1 capital					
Common shareholders' equity	$14,685	$13,814	$13,502	$12,833	$11,200
Non-cumulative preferred shares	550	800	1,275	1,775	1,775
Non-controlling interest in subsidiaries [1]	2,280	2,326	1,912	1,086	729
Less: Goodwill	(261)	(270)	(299)	(400)	(297)
	17,254	16,670	16,390	15,294	13,407
Tier 2 capital					
Subordinated debentures (net of amortization)	2,493	2,595	3,372	4,933	4,990
Eligible amount of general allowance [2]	1,317	1,352	1,448	1,442	1,171
	3,810	3,947	4,820	6,375	6,161
Less: Investments in associated corporations and other items	(200)	(209)	(250)	(329)	(539)
Total capital	$20,864	$20,408	$20,960	$21,340	$19,029
Total risk-weighted assets ($ billions)	$ 150.5	$ 154.5	$ 165.4	$ 164.8	$ 156.1
Capital ratios					
Tier 1 capital ratio	11.5%	10.8%	9.9%	9.3%	8.6%
Total capital ratio	13.9%	13.2%	12.7%	13.0%	12.2%

(1) Includes Scotiabank Trust Securities (Scotia BaTS), an innovative capital instrument.

(2) Under OSFI guidelines, the general allowance was included in Tier 2 capital up to a maximum of 0.875% of risk-weighted assets. Prior to October 2001, this limit was 0.75%.

Table 11 Changes in regulatory capital

For the fiscal years ($ millions)	2004	2003	2002	2001	2000
Total capital, beginning of year	$20,408	$20,960	$21,340	$19,029	$16,905
Internally generated capital					
Net income	2,931	2,477	1,797	2,169	1,926
Preferred and common share dividends	(1,139)	(901)	(837)	(729)	(604)
	1,792	1,576	960	1,440	1,322
External financing					
Debentures (net of amortization)	(102)	(777)	(1,561)	(57)	(124)
Preferred shares	(250)	(475)	(500)	–	–
Innovative Tier 1 capital instruments [1]	–	750	750	–	500
Common shares and contributed surplus	88	139	82	155	87
Purchase of shares and premium on redemption	(300)	(220)	(154)	–	–
	(564)	(583)	(1,383)	98	463
Other					
Net unrealized foreign exchange translation gains (losses) [2]	(709)	(1,176)	(137) [3]	79	163
Non-controlling interest in subsidiaries	(46)	(336)	76	357	31
Other [4]	(17)	(33)	104	337	145
	(772)	(1,545)	43	773	339
Total capital generated (used)	456	(552)	(380)	2,311	2,124
Total capital, end of year	20,864	20,408	20,960	21,340	19,029

(1) Innovative Tier 1 capital instruments (Scotia BaTS) issued through BNS Capital Trust and Scotiabank Capital Trust.

(2) Refer to footnote (2) on page 87.

(3) Refer to footnote (3) on page 87.

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

Capital ratio

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

In 2004, both our regulatory capital ratios improved. The Tier 1 capital ratio increased to 11.5% from 10.8% and the Total capital ratio rose to 13.9% from 13.2%. These ratios exceeded the formal target levels of 7% and 10% set by OSFI. As well, the Bank's capital ratios were among the highest of the major Canadian banks.

We also consider the tangible common equity (TCE) ratio to be one of the most important measures of capital strength. This ratio is calculated by dividing common shareholders' equity less goodwill and intangible assets by risk-weighted assets. At year end, our TCE ratio was 9.7%, a further strengthening of 80 basis points from 2003. This ratio also remained the strongest of the major Canadian banks.

Capital Allocation

The Bank uses an economic capital framework to allocate capital to the business lines. This allows us to appropriately measure the returns from the business lines based upon the risk they are assuming. Capital allocations are made for credit, market and operational risks.

The capital allocation models for credit risk use the Bank's internal risk rating of credit exposure for business loans, and credit scores for retail loans. In addition, the models take into account differences in term to maturity and expected severity of loss.

Capital for market risk is based on the internal VAR model used for the trading book, and on stress tests of the Bank's interest rate gaps, foreign exchange structural exposures, and equity investment portfolios.

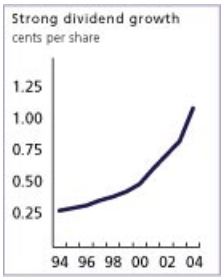
Operational risk capital is allocated based on an assessment of both business and event risk in each business line.

Dividends

Our very strong earnings growth and capital position allowed us to increase dividends twice in 2004. As a result, dividends rose by 31% year over year to $1.10 per common share. In fact, dividends have tripled since 1998, and have risen at a compound annual rate of 14.3% over the past 10 years.

Our dividend payout ratio for 2004 was 38%, up from 35% last year, and well within the Bank's target range of 35 to 45%.

A stock dividend was paid in April 2004, which had the same effect as a two-for-one stock split.



Share Repurchase Program

In January 2004, the Bank renewed its normal course issuer bid on the Toronto Stock Exchange to repurchase up to 25 million common shares (subsequently amended to 50 million to reflect the stock dividend in April 2004) at prevailing market prices. The Bank used these repurchases to offset the earnings per share dilution caused by the exercise of share options under the Bank's stock option programs.

In fiscal 2004, 9.1 million common shares were repurchased at an average price of $34.96. This program is expected to be renewed upon its expiry on January 5, 2005.

Basel II Implementation

In June 2004, the Basel Committee on Banking Supervision released its final report entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II). This framework is intended to replace the 1988 Basel Accord with a more risk-sensitive approach that recognizes the significant transformation that has taken place in risk management practices and financial markets. This framework is designed to align regulatory capital requirements with underlying risks, thereby providing banks with incentives to improve their risk management practices.

Notable differences from the 1988 accord include:

- Substantive changes in the treatment of credit risk. Three distinct capital calculation options, from simple to advanced, are now potentially available for banks.
- Introduction of a new, explicit capital charge for operational risk.
- Increased supervisory review of capital adequacy.
- Increased public disclosure of banks' risk profiles.

The new Basel II framework follows five years of active consultation, during which time Scotiabank has worked closely with the industry and the regulators to provide input regarding the proposed changes.

The new framework is expected to be fully effective for the major Canadian banks for fiscal 2008. The OSFI expects the banks to commence "parallel run" implementation on November 1, 2005. We have accelerated our planning and implementation efforts to be in a position to meet regulatory requirements in accordance with this timetable. Early in 2004, we established a Basel Program Office to direct the overall planning and implementation efforts. A steering committee comprised of senior management from the various business lines, executive office support functions and Global Risk Management, was also established to oversee the program. A number of major initiatives are under way, and more will begin in 2005.

Outlook

We expect to remain very well capitalized in 2005, with strong capital ratios.

Off-Balance Sheet Arrangements

In the normal course of business, the Bank has contractual arrangements that are not required to be consolidated in its balance sheet. These arrangements could have a current or future effect on its results of operations or financial condition. They fall into three main categories: variable interest entities (VIEs), securitizations, and guarantees and loan commitments.

Variable interest entities

The Bank has off-balance sheet arrangements with VIEs which fall into two broad categories:

- VIEs that are used to provide a wide range of services to customers. These include sponsoring and actively managing mutual funds, as well as offering trust and estate services for personal and corporate trusts. In addition, the Bank establishes VIEs to assist clients in securitizing their financial assets (through commercial paper conduits) and to provide investment opportunities.

- VIEs that are used to diversify the Bank's funding sources and manage its capital requirements, by securitizing its own assets (mostly residential mortgages and personal loans) and issuing innovative Tier 1 capital instruments (e.g., Scotiabank Trust Securities described in Note 11 and Note 13 to the consolidated financial statements).

For many of the VIEs used to provide services to customers, the Bank earns fees but has no exposure to loss on the underlying assets, as it does not guarantee the performance of the assets. For other VIEs, such as securitization and investment vehicles, the Bank earns fees and may be exposed to credit, market, liquidity, or operational risks. Maximum possible payments under liquidity facilities, mainly related to asset backed commercial paper conduits, are discussed below under guarantees and loan commitments.

VIEs are subject to the review and approval processes that the Bank applies to all transactions to ensure that risks, as well as accounting, related party and ownership issues, are properly addressed.

As disclosed in Note 2 to the consolidated financial statements on page 94, new Canadian accounting rules, which are effective for fiscal 2005, require some of these VIEs to be consolidated, mainly asset backed commercial paper conduits. The estimated effect of applying these rules will be an increase in assets and liabilities of $7 billion. The Bank earned approximately $23 million in fiscal 2004 from the administration of these asset backed commercial paper conduits. The amounts owed by or to these conduits are not significant. More information with respect to these VIEs is included in Note 2.

Information with respect to VIEs where the Bank has significant involvement, but will not be required to consolidate, is also included in Note 2. These VIEs include personal and corporate trusts, and mutual fund structures, with assets totaling approximately $46 billion. The Bank earned approximately $324 million in related fees in 2004.

Securitizations

The Bank securitizes some of its personal and credit card loans, and residential mortgages, by transferring the assets to unrelated trusts. As discussed further in Note 1 to the consolidated financial statements on page 90, if certain criteria are met, the transfers are treated as sales and the transferred assets are removed from the consolidated balance sheet. These securitizations allow the Bank to diversify its funding sources, and manage risks and capital requirements.

The total principal amount of off-balance sheet securitized personal and credit card loans has declined over the past two years, as these arrangements mature. However, the total principal amount of off-balance sheet securitized mortgages has increased over the past two years, as securitization has been a cost-effective method of funding the significant growth in mortgage volumes. As at October 31, 2004, $7,523 million of mortgages were securitized, up from $5,248 million last year and $3,829 million two years ago. Given the Bank's sizable capital base, and the manner in which these securitizations are structured, the Bank is not exposed to significant liquidity risks in connection with these off-balance sheet arrangements.

Subsequent to the transfer of assets, the Bank retains interests in securities issued by the trusts, maintains relationships with the underlying customers and provides administrative services to the trusts. The Bank recorded securitization revenues of $111 million in 2004, compared to $140 million in 2003 and $162 million in 2002. More information on the amount of securitizations and associated cash flows, servicing fees and retained interests is provided in Note 4(b) to the consolidated financial statements on page 96. Information on related guarantees is provided in Note 20, on page 111.

Guarantees and loan commitments

Guarantees and loan commitments are issued by the Bank to earn fee revenue and consist primarily of:

- Standby letters of credit and letters of guarantee, of which $14,417 million are outstanding as at October 31, 2004, up from $14,176 million last year. These are issued at the request of a Bank customer to secure the customer's payment or performance obligations to a third party.

- Liquidity facilities, which generally provide an alternate source of financing to asset-backed commercial paper conduits, in the event that a market disruption prevents the conduits from issuing commercial paper or, in some cases, when certain specified conditions or performance measures are not met. As at October 31, 2004, these facilities amounted to $14,577 million, compared to $14,543 million a year earlier.

- The Bank provides partial credit enhancements, in the form of financial standby letters, to commercial paper conduits, administered by the Bank and by third parties. As at October 31, 2004, these credit enhancements amounted to $846 million, unchanged from 2003, and are included within standby letters of credit and letters of guarantee.

- In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions where the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur. 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.

- 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. As at October 31, 2004, these commitments amounted to $104 billion, compared to $111 billion a year earlier.

These arrangements may expose the Bank to credit or liquidity risks and are subject to the Bank's standard review and approval processes. Annual fees from these guarantees and loan commitment arrangements, recorded in credit fees in the Consolidated Statement of Income, were approximately $258 million in 2004, compared to $288 million in the prior year. Detailed information on guarantees and loan commitments is disclosed in Note 20 to the consolidated financial statements on page 111.

Financial Instruments

Financial instruments are central to the business of the Bank and, as such, the Bank's balance sheet is comprised substantially of financial instruments. To understand the Bank's present financial instrument positions and related risks, it is necessary to understand the strategies and activities of the Bank's business lines as well as the Bank's approach to risk management.

On the asset side of the balance sheet, financial instruments include cash resources, securities, loans and derivative instruments. Liabilities that are financial instruments include deposits, obligations related to securities sold under repurchase agreements, obligations related to securities sold short, derivative instruments and subordinated debentures. Financial instruments are generally carried at cost, except for those held for trading purposes, which are recorded at their estimated fair value.

The terms and conditions of these financial instruments are disclosed in the notes to the 2004 consolidated financial statements. In particular, Note 21 on pages 113-116 discloses the methods the Bank uses in determining fair values and the fair value amounts of the Bank's financial instruments; the interest rate risk profile, including the interest rate sensitivity gap and maturity or repricing profiles; and the credit exposure of selected financial instruments. With respect to derivative instruments, Note 22 on pages 116-119 provides product volumes, term to maturity, credit risk and fair value information.

The fair value of the Bank's financial instruments exceeded their carrying value by $1,171 million (2003 – $468 million) as at October 31, 2004. The net changes in fair value year over year arise primarily from changes in interest rates, and to a lesser extent foreign currency rates and equity security prices. Fair values for those instruments that do not have a quoted market price were estimated using present value or other techniques based primarily on observable interest rates, foreign exchange rates, equity prices and credit spreads. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Financial instruments, by their nature, give rise to different risks, such as credit risk, liquidity risk, operational risk and market risk. The latter includes risks related to interest rate, foreign currency and equities. The Bank has extensive risk management policies and practices in place to manage these risks, including a variety of Board-approved risk management limits and risk measurement techniques. A discussion of the Bank's risk management practices can be found in the Risk Management section on pages 54 to 63, including a description of risk management practices with respect to derivative instruments.

There are various measures that reflect the level of risk associated with the Bank's portfolios of financial instruments. Included on page 58 under Interest Rate Risk is the sensitivity to net interest income of the Bank's non-trading financial instruments if interest rates were to rise 1%, as well as the impact on the present value of the Bank's net assets. On the trading side, the table on page 60 discloses the average one-day Value At Risk, by risk factor. From a term to maturity standpoint, only 9% (2003 – 8%) of the Bank's derivative instruments have a term to maturity greater than five years, which historically is at the low end of our Canadian peer group.

Income and expense on interest-bearing financial instruments is included in net interest income in the Bank's Consolidated Statement of Income, and credit losses are recorded in the provision for credit losses. Realized gains, losses and write-downs on investment securities are recorded in Other Income, as are net trading revenues. Details of the Bank's accounting policies with respect to derivatives and hedging activity can be found in Note 1 of the 2004 consolidated financial statements on page 90.

BUSINESS LINE OVERVIEW

Domestic Banking

Business Profile

Domestic Banking provides a full range of banking and investment services to retail, small business, commercial and wealth management customers across Canada. The investment and advisory services provided by the Wealth Management group include retail brokerage, mutual funds and private banking and trust services.

Strategy

We focus on building market share by strengthening customer relationships to win a greater share of their business, and by attracting new customers. We emphasize service excellence, targeted marketing and relationship management, innovative product solutions, improved sales productivity, cost control and strong execution.

2004 Results

Domestic Banking had a solid year in 2004, with net income of $1,136 million, a 4% increase from last year. Very good growth, including market share gains, in retail mortgages, personal lending and deposits was partially offset by a narrowing interest margin. As well, credit card and retail brokerage revenues grew year over year. Non-interest expenses and provisions for credit losses remained well controlled.

International Banking

Business Profile

Our broad global network – built on more than a century of international experience – provides a complete range of financial services to both local and multinational customers in more than 40 countries in the Caribbean and Central America, Mexico, Latin America and Asia.

Strategy

We are investing in high-growth markets, where we anticipate increased demand for financial services. We are also leveraging proven, bank-wide capabilities to expand our product and service offerings, and increase sales productivity and operating efficiency through a shared services approach and common technology platforms.

2004 Results

International Banking had a good year in 2004, with net income of $746 million, an increase of 11% from last year, notwithstanding the significant negative effect of foreign currency translation as a result of the appreciation of the Canadian dollar. Scotiabank Inverlat's earnings contribution rose substantially, and the Caribbean and Central America also had good growth.

Scotia Capital

Business Profile

Our corporate and investment banking operations provide specialized solutions to clients in Canada, the United States and Europe, with select operations in Mexico and Asia. Scotia Capital has recognized strengths in corporate lending, equity underwriting, mergers and acquisitions, derivatives, fixed income, foreign exchange and precious metals as well as equity sales, trading and research.

Strategy

Our strategy remains focused on earning a good return on capital by building strong client relationships and carefully managing credit risk. Revenue growth is expected to come from the creation of a NAFTA wholesale banking platform and the expansion of global capabilities in selected product areas such as derivatives.

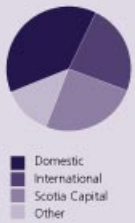
2004 Results

Scotia Capital had a strong year, as net income rose 18% to $854 million in 2004. This result was achieved despite the negative effect of foreign currency translation and a continued reduction in corporate lending assets. Provisions for credit losses declined sharply for the second consecutive year, as credit quality improved, particularly in the U.S. and Europe.

Other

The Other category represents smaller operating segments, including Group Treasury, and other corporate adjustments, that are not allocated to an operating segment.

	2004				
($ millions)	Domestic Banking	International Banking	Scotia Capital	Other	Total
Net interest income	$ 3,535	$ 1,895	$ 983	$ (548)	**$ 5,865**
Other income	1,671	741	1,227	681	**4,320**
Provision for credit losses	(317)	(70)	(106)	103	**(390)**
Non-interest expenses	(3,217)	(1,606)	(960)	(79)	**(5,862)**
Income taxes/non-controlling interest	(536)	(214)	(290)	38	**(1,002)**
Net income	$ 1,136	$ 746	$ 854	$ 195	**$ 2,931**
Return on equity[1] (%)	30.6%	21.7%	20.3%	N/A	**19.9%**
Average earning assets ($ billions)	$ 112	$ 49	$ 109	$ 14	**$ 284**



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

Financial Performance

Domestic Banking reported net income of $1,136 million in 2004, $42 million or 4% higher than last year, with an excellent return on equity of 30.6%. Domestic Banking accounted for 39% of the Bank's total net income. This growth was driven by a stronger performance in retail banking, partly offset by a decline in earnings from our commercial operations.

Assets and Liabilities

Domestic retail assets including Wealth Management's private client group business, grew by a solid 14% this year. This was led by exceptional growth in residential mortgage balances of $9.3 billion or 15% over 2003. As a result, market share grew by 52 basis points, a continuation of the gains of the past several years. Also contributing to the increase in assets was very strong year-over-year growth of 16% in personal revolving credit. Furthermore, 60% of the *ScotiaLine*® and ScotiaLine VISA credit portfolios are now secured. Commercial lending volumes declined slightly, mainly because of a managed reduction in commercial mortgages.

Core retail deposits recorded strong growth of 19%, reflecting the ongoing success of the *Money Master*® High Interest Savings Account, which resulted in significant market share gains of 26 basis points over last year. Business deposits, including the new Money Master *for business*™, also rose strongly by 22%, continuing the double-digit growth trend of the past several years.

Assets under administration rose 10% to $97 billion. Net asset inflows from new and internally referred customers, as well as continued growth in our share of wallet, complemented market-driven gains.

Revenues

Total revenues were $5,206 million, up $204 million or 4% from last year. Net interest income increased by $61 million or 2% to $3,535 million in 2004, driven by strong volume growth in assets and deposits. The interest margin fell during the year, largely the result of low interest rates and competitive pressures, particularly in retail mortgages.

Other income for the year was $1,671 million, an increase of 9% over last year. Growth was broadly based, including higher card revenues from expansion of the commercial card program, an increase in transaction-based fees from volume growth and pricing initiatives, and growth in electronic-based fees, which came in part from the installation of more ABMs. As well, brokerage revenues grew by $49 million or 11% as a result of greater customer trading activity.

Revenue by area

Taxable equivalent basis ($ millions)	2004	2003	2002
Retail	$3,299	$3,118	$3,007
Small Business & Commercial	1,110	1,133	1,270
Wealth Management	797	751	727
Total revenue	$5,206	$5,002	$5,004

Non-interest Expenses

Non-interest expenses were $3,217 million in 2004, an increase of $141 million or 5% from last year. This reflected normal merit-based growth in salaries, higher performance and stock-based compensation and an increase in pension costs. Also contributing to the rise in expenses were higher mortgage acquisition and appraisal costs, consistent with the growth in residential mortgages. Expenses also rose for initiatives undertaken to enhance customer service, expand product offerings, and improve efficiencies, including the replacement of legacy product systems.

Credit Quality

Provisions for credit losses were $317 million in 2004, up $45 million or 17% from last year. Credit quality remained very good in the retail portfolio, with our retail loan loss ratio of 23 basis points being 3 basis points below last year. Commercial credit losses rose this year due to the deterioration of a small number of accounts.

Outlook

We expect good growth in assets and deposits next year, although not at the same rate as 2004. However, ongoing margin compression is likely to constrain growth in net interest income. Credit quality is expected to remain fairly stable. Our focus for the next year will be to continue to increase our sales capacity, deepen customer relationships and attract new customers.

Domestic Banking

Financial performance ($ millions)	2004	2003	2002
Net interest income(1)	$ 3,535	$ 3,474	$ 3,405
Other income	1,671	1,528	1,599
Provision for credit losses	(317)	(272)	(282)
Non-interest expenses	(3,217)	(3,076)	(2,953)
Income taxes(1)	(536)	(560)	(627)
Net income	$ 1,136	$ 1,094	$ 1,142
Return on equity (%)	30.6	30.9	33.0
Average earning assets ($ billions)	112	101	93
Productivity ratio(1) (%)	61.8	61.5	59.0

(1) Taxable equivalent basis

Financial Performance

International Banking's net income in 2004 was $746 million, an increase of $77 million or 11% from last year, with a return on equity of 21.7%. This good performance was achieved notwithstanding the significant negative effect of foreign currency translation.

The major contributors to the growth in net income were Scotiabank Inverlat and the Caribbean and Central America. Inverlat's contribution to the Bank's earnings rose substantially, following the increase in the Bank's ownership level to 97% in 2004 and the recognition of the benefit of certain of Inverlat's tax loss carryforwards in the consolidated results this year. As well, Inverlat had strong loan growth and minimal credit losses.

Assets and Liabilities

Assets fell 6% during the year, due to the effect of foreign currency translation. Underlying local currency asset volumes grew 5% this year. Retail loan growth was a very strong 19%, mostly in the Caribbean and Mexico. Commercial loan growth was more moderate at 4%. Retail deposits increased 10% reflecting continued growth in most Caribbean countries and Mexico.

Revenues

Total revenues were $2,636 million in 2004, a decrease of $168 million or 6% from last year, due entirely to the effect of foreign currency translation. Underlying local currency revenue rose $214 million or 8%.

Net interest income was $1,895 million in 2004, a decrease of $133 million or 7% from last year, due to the effect of foreign currency translation. Underlying interest income grew by $133 million or 7%, from higher retail loans and deposits in the Caribbean and Central America, and Scotiabank Inverlat. Partly offsetting this increase was a decline in Asia as a result of lower margins.

Other income fell 5% year over year to $741 million, due entirely to the effect of foreign currency translation. Underlying other income rose 10%, reflecting growth in Scotiabank Inverlat and the Caribbean and Central America, which was led by higher fee income from loan collection services associated with the Baninter acquisition in the Dominican Republic.

Revenue by area

Taxable equivalent basis

($ millions)	2004	2003	2002
Caribbean & Central America	$1,161	$1,146	$1,163
Mexico	991	1,077	1,190
Other	484	581	550
Total revenue	$2,636	$2,804	$2,903

Non-interest Expenses

Non-interest expenses were $1,606 million in 2004, down 3% or $51 million from last year, due entirely to the effect of foreign currency translation. Underlying local currency expense growth was 10%. The largest increase was in the Caribbean and Central America as a result of the acquisition of Baninter branches and normal growth in employee salaries. As well, expenses rose due to the expansion of our branch and alternative delivery networks, and business-related growth in most countries. Inverlat's ongoing productivity improvements partly offset these increases.

Credit Quality

The provision for credit losses was $70 million in 2004, a decrease of $3 million from last year. However, excluding the reversals of $64 million in 2003 related to Argentine cross-border loans, provisions declined by $67 million year over year, mainly as a result of lower levels of provisioning in the Caribbean and Chile. The economies in a few countries in the Caribbean and Central America were negatively affected by hurricanes, which resulted in higher credit losses in the fourth quarter.

Outlook

We expect International Banking's track record of underlying earnings growth to continue in 2005, particularly in Mexico, the Caribbean and Central American region, and in Chile. We anticipate continued growth in assets and deposits, with an increased focus on sales effectiveness, and further expansion of the delivery network. However, this growth will continue to be negatively impacted by the effect of foreign currency translation.

International Banking

Financial performance ($ millions)	2004	2003	2002[2]
Net interest income[1]	$ 1,895	$ 2,028	$ 2,225
Other income	741	776	678
Provision for credit losses	(70)	(73)	(523)
Non-interest expenses	(1,606)	(1,657)	(2,096)
Income taxes[1]/non-controlling interest	(214)	(405)	(159)
Net income	$ 746	$ 669	$ 125
Return on equity (%)	21.7	20.7	3.0
Average earning assets ($ billions)	49	52	58
Productivity ratio[1] (%)	60.9	59.1	72.2

(1) Taxable equivalent basis

(2) Excluding the 2002 charges of $540 million (after tax) related to Argentina, net income was $665 million, return on equity was 19.7% and the productivity ratio was 61.8%.

Financial Performance

Scotia Capital reported net income of $854 million in 2004, a significant 18% increase year over year, largely due to a substantial improvement in credit losses in all of the corporate lending portfolios. As well, record earnings were achieved in several areas, including precious metals, foreign exchange and investment banking. These accomplishments were somewhat offset by the effect of foreign currency translation and a continued reduction in corporate lending assets. Return on equity was 20.3% in 2004, a substantial improvement from last year.

Assets and Liabilities

Overall asset levels continued to fall in 2004. Lending volumes declined 2% in Canada, 27% in Europe and 39% in the U.S., of which 6% was from the effect of foreign currency translation. Credit commitments also decreased from last year, but to a lesser extent than drawn loans. The decline in lending volumes was primarily due to more selective lending, weak demand by corporate borrowers and increased market liquidity, particularly in the U.S. and Europe.

Revenues

Total revenues fell 13% from last year to $2,210 million in 2004. Net interest income declined $266 million or 21% to $983 million, while other income dropped $62 million or 5% to $1,227 million. Revenues from Canadian operations fell 4%, primarily due to lower net interest income and credit fees, reflecting the continued contraction of the corporate loan portfolio and tighter market pricing. Strong revenue gains from equity new issues, commissions and investment banking were offset by lower equity trading results.

Global Trading continued to generate solid results, as revenues rose modestly, dampened by the effect of foreign currency translation. There were record revenues in our foreign exchange and precious metals businesses, accompanied by higher funding margins. However, challenging market conditions resulted in lower fixed income revenues.

Revenues in the United States decreased 34%, driven by lower interest income and credit fees as a result of lower corporate loan volumes.

Revenue by area

Taxable equivalent basis

($ millions)	2004	2003	2002
Canada	$ 688	$ 720	$ 700
U.S. and Europe	816	1,117	1,245
Global Trading	706	701	925
Total revenue	$2,210	$2,538	$2,870

Non-interest Expenses

Total non-interest expenses were $960 million in 2004, a decrease of 3% from 2003, due primarily to the effect of foreign currency translation and reductions in salary costs as a result of lower staffing levels. Premises costs, professional fees and severance expenses were also lower in 2004. Partly offsetting these declines was an increase in performance-related compensation, in line with improved results, as well as higher pension and benefit costs and training and development expenses.

Credit Quality

Provisions for credit losses decreased sharply to $106 million in 2004 from $549 million last year. This reduction was across all the portfolios, including $216 million in the U.S., $138 million in Canada and $89 million in Europe. As well, net impaired loans declined substantially from the prior year, particularly in the U.S. and Europe. Overall, better credit conditions, including more robust capital markets, along with strong credit discipline, contributed to the significant improvement in credit quality in 2004.

Outlook

The outlook for our trading businesses continues to be positive and we anticipate good growth next year. We also expect that the improvement in credit quality over the past two years will be sustained. However, the current challenging conditions for corporate borrowing are expected to continue which, along with the effect of the stronger Canadian dollar, will dampen the prospects for overall earnings growth.

Scotia Capital

Financial performance ($ millions)	2004	2003	2002
Net interest income[1]	$ 983	$1,249	$ 1,615
Other income	1,227	1,289	1,255
Provision for credit losses	(106)	(549)	(1,247)
Non-interest expenses	(960)	(986)	(1,022)
Income taxes[1]	(290)	(282)	(221)
Net income	$ 854	$ 721	$ 380
Return on equity (%)	20.3	12.9	6.4
Average earning assets ($ billions)	109	119	124
Productivity ratio[1] (%)	43.4	38.8	35.6

(1) Taxable equivalent basis

> OTHER

Financial Performance

Net Income was $195 million in 2004, compared to a loss of $7 million in 2003. This improvement was primarily due to increased investment gains in Group Treasury and the $100 million reduction in the general allowance for credit losses this year.

Revenues

Revenues increased by $312 million year over year, mainly from higher investment gains in Group Treasury, which were up $301 million from last year. In 2004, there was a gain of $125 million ($81 million after tax) realized on the sale of a portion of the Bank's investment in Shinsei Bank in Japan. As well, there were higher net gains on other equity investments, while gains on bonds declined moderately from last year. Over the past two years, Group Treasury has sold a significant portion of the Bank's bond investment portfolio in anticipation of rising interest rates, and has realized substantial net gains.

Net interest expense was $548 million in 2004, an improvement of $53 million from last year, mainly from the impact of the maturity of several securitizations. Partly offsetting this improvement was a decline in Group Treasury, due largely to a reduction in the bond portfolio.

Net interest income includes the elimination of the tax-exempt income gross up. This amount is included in the operating segments, which are reported on a taxable equivalent basis. This reduction was $274 million in 2004, compared to $278 million last year.

Non-interest Expenses

Non-interest expenses were $79 million in 2004, compared to $12 million last year. The higher expense levels this year related to corporate items and an increase in Group Treasury.

Credit Quality

The reversal of provision for credit losses was $103 million, due almost entirely to the $100 million reduction in the general allowance for credit losses in 2004.

Income Taxes

The provision for income taxes includes the elimination of the gross up of tax-exempt income. The year over year change in taxes was mainly from higher earnings in 2004.

Outlook

Group Treasury's results are expected to decline in 2005 as lower gains on the sale of investment securities are anticipated versus the near-record levels generated in 2004. If current trends in the quality and size of the corporate loan portfolio are sustained, a further reduction in the general allowance for credit losses may be possible.

Other

Financial performance ($ millions)	2004	2003	2002
Net interest income (expense) [1]	$(548)	$(601)	$(570)
Other income	681	422	410
Reversal of provision for credit losses	103	1	23
Non-interest expenses	(79)	(12)	97
Income taxes [1]	172	303	252
Non-controlling interest	(134)	(120)	(62)
Net income	$ 195	$ (7)	$ 150

(1) Includes the elimination of the tax-exempt gross-up of $274 million (2003 – $278 million; 2002 – $268 million) reported in net interest income and provision for income taxes, to arrive at the amounts reported in the Consolidated Statement of Income.

RISK GOVERNANCE

Board of Directors

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

Senior Management Committees

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

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

Senior Credit Committees: adjudicate non-retail credits within prescribed limits and establish the operating rules and guidelines for the implementation of credit policies. Separate committees cover commercial, international, corporate and investment banking counterparties. In addition, there are separate senior committees that authorize major credit policy changes for retail and small business credits.

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

Reputational Risk Committee: reviews structured finance transactions, loans, merchant banking transactions, underwriting and other transactions or new products referred by business lines or the Senior Credit or Market Risk committees, to ensure that the Bank is, and is seen to be, acting legally with high ethical standards.

Risk Management Overview

Risk, to varying degrees and in different forms, is present in virtually all business activities of a financial services organization. In certain activities, risk is assumed as a means of generating revenue, while in other activities, risk exists by virtue of engaging in the activity. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are within the Bank's risk tolerance, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

Risk management is guided by several key principles that form the foundation of the framework the Bank has developed to control the risks in its diverse, global activities. The risk management framework is integrated with the Bank's strategy and business planning processes. The effectiveness of this framework is enhanced by the active participation of executive and business line management in the risk management process. This process is continually reviewed and updated to ensure consistency with risk-taking activities.

In varying forms, these principles apply to all businesses and risk types:

- Board oversight – Risk strategies, policies and limits are subject to Board approval. The Board, directly or through its committees, receives regular updates on the key risks of the Bank.
- Decision-making – Decision-making processes are designed to ensure alignment of business objectives, risk tolerance and resources.
- Accountability – Business units are responsible for managing risks within their portfolios, and are allocated capital in line with their risk profiles.
- Independent review – All significant credit, market and liquidity risk-taking activities are subject to oversight by Global Risk Management and other units that are independent of the business lines that generate the activity.
- Diversification – Strategies, policies and limits, approved by an independent risk management group and endorsed by business line management, are designed to ensure that risk is well diversified.
- Audit review – Internal Audit reports independently to the Audit and Conduct Review Committee of the Board on the effectiveness of the risk management policies and on the extent to which internal controls are in place and being followed.

Risks are managed within the policies and limits approved by the Board of Directors and in accordance with the governance structure described to the left. Global Risk Management is responsible for monitoring credit, market, liquidity, and operational risk within the policies and limits set by the Board of Directors.

Credit Risk

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

Credit Risk Management Processes

The credit risk management program is an integral part of enterprise-wide policies and procedures that articulate the Bank's governance, risk management and control structure. Credit risk is managed through poli-

cies, guidelines and limits that are approved by the Board of Directors. The Risk Policy Committee reviews the policies, standards and limits that control credit risk and recommends to the Board any changes that may be required in response to changing market conditions and other factors. Both the Board and the Risk Policy Committee regularly receive comprehensive reports from Global Risk Management on the quality of the credit portfolios, including major risk exposures and concentrations across the organization.

CORPORATE AND COMMERCIAL

The decision-making process for corporate and commercial credits is intended to ensure that credit risks are adequately assessed, properly approved, continually monitored and actively managed. All significant credit requests are processed through the head office credit units of Global Risk Management, which are independent of the business line, for analysis and recommendation.

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: analysis of the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; geopolitical risk; and management. The result of this assessment is the assignment of a risk rating to the borrower, using an 18-category rating system. A separate risk rating is assigned at the facility level, taking into consideration factors that affect the loss-given-default of the facility such as security, seniority of claim, structure and term. Risk ratings determine the level of seniority at which the credit decision can be made, the assignment of economic capital and the computation of the general allowance for credit losses.

In making credit decisions, a number of other factors are also considered, including risk rating, facility risk, industry and country limits, and single name and connection concentration limits. Various internal and external modeling techniques are used to supplement the risk analysis of individual borrowers and credit portfolios. In addition, a risk-adjusted return on equity profitability model is used to provide an assessment of each credit application to ensure the client and transaction structure offers an appropriate return for a given level of risk. Scotia Capital also has a loan portfolio management group that independently reviews the model results together with external benchmarks, and provides an opinion on the relative return and pricing of each transaction above a minimum threshold.

The Bank segments its corporate and commercial credit exposures into major industry groups. The risks in these industry groups are managed through limits, and lending criteria and guidelines relevant to each particular industry.

Credit units have defined authority levels appropriate to the size and risk of each transaction. Where the decision is beyond these authority levels, the credit unit will make a recommendation and refer the request to a Senior Credit Committee for adjudication. Senior Credit Committees also have defined authority levels and, accordingly, forward certain credits to the Risk Policy Committee. In certain cases, credits must be referred to the Board of Directors.

Individual credit exposures are regularly monitored for any signs of deterioration by both the business line units and Global Risk Management. In addition, a review and risk analysis of each borrower is conducted annually, or more frequently for higher-risk borrowers. If, in the judgment of management, an account requires the expertise of specialists in workouts and restructurings, it will be transferred to a separate group within Global Risk Management for monitoring and resolution. Internal audit conducts periodic reviews of credit risk management processes as well as reviews of a sample of individual credits from the various portfolios.

Banking units and Global Risk Management review the various segments of the credit portfolio across the organization on a regular basis to assess whether economic trends or specific events may affect the quality of the portfolio and determine whether corrective action needs to be taken. These reviews include the examination of the risk to particular industries and countries. The results of these reviews are reported to the Risk Policy Committee and, when significant, the Board of Directors. The Risk Policy Committee makes recommendations to the Board to adjust limits to various industries and countries.

CONSUMER

The decision-making process for consumer and small business credits is intended to ensure that credit risks are adequately assessed, properly approved, continually monitored and actively managed. Generally, decisions on consumer credits are based on risk ratings, which are generated using predictive credit scoring models. Individual credit requests are processed by industry-leading 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 modelling in Canada is customer rather than product focused. We believe that a customer-centric approach provides better risk assessment than product-based approaches, and should result in lower loan losses over time. Our adjudication software calculates the maximum debt for which the customer qualifies. This allows customers to choose the products that satisfy all of their credit needs.

All significant credit scoring and policy changes proposed by the business line require analysis and recommendation by Global Risk Management, which is independent of the business line, and approval by the appropriate Senior Credit Committee. All credit scoring models are subject to ongoing validation and independent review by Global Risk Management.

Consumer credit portfolios are reviewed monthly to determine emerging trends in credit quality and to assess whether corrective action is required. Internal audit conducts periodic reviews of the risk management process.

Portfolio Review

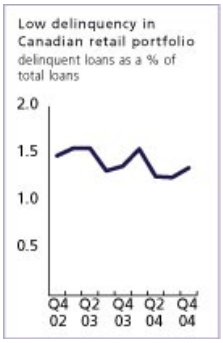
CORPORATE AND COMMERCIAL

There was a significant year-over-year improvement in credit quality, particularly in Scotia Capital's portfolios. A number of factors contributed to this change. Problem loans declined through repayments, loan sales and loans being restructured. As well, the number of new problem loans fell year over year, due in part to an improvement in the credit environment, and the application of well-defined business and risk management strategies to manage the portfolios. Scotia Capital commenced some strategic initiatives in the past few years that have continued into 2004. These initiatives include reducing single name exposures and exiting customer relationships that do not provide an acceptable return in relation to the risk.

While the loan portfolios are well diversified, the Bank actively monitors industry concentrations, particularly those industries that have exhibited signs of stress. At the present time, the North American automotive industry is facing a number of challenges, particularly in the manufacturer and supplier segments. Although the Bank does not have a significant concern with its exposure to these segments, it is closely monitoring industry trends that may affect credit quality. Higher risk exposures to industries that have experienced stress in the recent past, such as the cable and telecommunications and power and energy trading sectors, have been reduced.

To mitigate exposures in its performing corporate portfolios, the Bank uses loan sales and credit derivatives. In 2004, loan sales aggregated $630 million, compared to $660 million in 2003. At October 31, 2004, credit derivatives used to mitigate exposures in the portfolios aggregated $500 million, compared to $470 million at October 31, 2003.

Both the Domestic and International commercial portfolios have maintained good credit quality, with gross impaired loans declining year over year. Challenging events, such as the impact of BSE on the Domestic commercial portfolio, and the impact of hurricanes on the International commercial portfolio, have not resulted in significant increases in credit losses.



DOMESTIC RETAIL

Overall credit quality in the consumer portfolio continued to be very good. Total retail reportable delinquency (dollars of assets two or more months in arrears divided by total outstanding assets) was 1.35% and improved slightly year over year.

As well, provisions for credit losses in the domestic retail portfolio were 23 basis points of average assets, a decline of 3 basis points for the year.

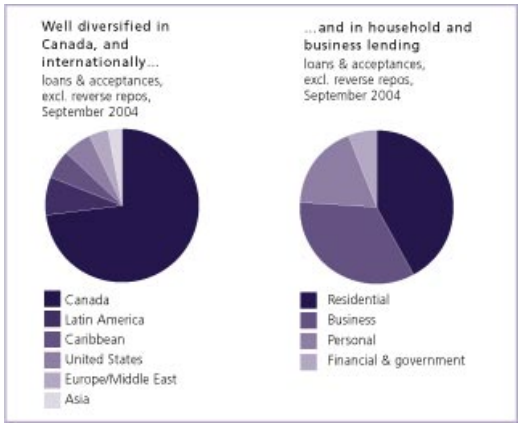
INTERNATIONAL RETAIL

Within the risk tolerances we have set for our international retail portfolio, credit quality is at acceptable levels. In the Caribbean and Central America, total reportable delinquency rates and provisions for credit losses have been improving over the last four years. While the effects of hurricanes may temporarily increase delinquency in some areas of the Caribbean, we do not expect this to have a material impact on overall delinquency rates or provisions for credit losses.

In Scotiabank Inverlat in Mexico, the delinquency trends were different between the two components of the retail portfolio. For retail loans that existed before the Bank acquired Inverlat, delinquency has declined, although it remains high. For loans granted post acquisition, delinquency levels are low, but have increased modestly as the portfolio matures.

Risk Diversification

Risk diversification is one of the key principles applied in determining policies and limits. Borrower limits are set within the context of established guidelines for individual borrowers, particular industries, countries and certain types of lending to ensure the Bank does not have excessive concentration to any single borrower, or related group of borrowers, industry sector or geographic region. Where the Bank's Risk Policy Committee decides it is appropriate to exceed any of these guidelines the decision is reported to the Board. The Bank's exposures to various countries and types of borrowers reflect this diversification, and are displayed in the following charts and in Tables 16 and 17 on pages 69 and 70.



Market Risk

Market risk is the risk of loss due to changes in interest rates, foreign currency rates, credit spreads, equity and commodity prices and market volatility. Market risk exists in the Bank's funding, investment and trading activities.

Market Risk Management Processes

Market risk exposures are managed within the framework of strategies, policies and limits that are approved by the Board of Directors. The Board reviews and approves these policies and risk limits annually, and receives regular reports on risk exposures and performance covering various lines of business.

The Liability Committee (LCO) and the Market Risk Management and Policy Committee (MRMPC) provide senior management oversight of the Bank's market risk exposures. The LCO is primarily focused on asset liability management, which includes funding and investment activities. The MRMPC is responsible for the approval of new products, limits and practices for trading, funding and investment activities and monitoring risk exposures. All market risk limits are reviewed at least annually.

Global Risk Management provides independent oversight of all significant market risks. In conjunction with other support units, Global Risk Management develops and monitors various risk measures and provides reports on market risk to senior management and the Board. Global Risk Management develops market risk policies, including valuation policies. Internal Audit conducts periodic reviews of market risk management processes.

Risk Measurement Techniques

The Bank uses a variety of metrics to measure and control the risk it assumes in its various activities. The measurements used are selected based on an assessment of the nature of risks in a particular activity. Limits are then set for those measurements that have been determined to best control the amount of risk that can be taken. There are various limits at the product, portfolio, business unit and business line levels, and for the Bank in total. Set out below is a description of some of the key risk measures employed.

VALUE AT RISK

Value at risk (VAR) is an estimate, within a given level of statistical confidence, of the potential for loss of value that could result from holding a position for a specified period of time. For trading books, VAR is calculated daily at a 99% confidence level, for a one-day holding period, using historical simulations based on 300 days of market data. The quality of the Bank's VAR is validated by ongoing backtesting analysis, in which the VAR is compared to hypothetical and actual profit and loss results. VAR is also used to evaluate risks arising in certain funding and investment portfolios.

STRESS TESTING

VAR measures potential losses in normally active markets. 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 over 50 stress tests on a daily basis, and over 200 stress tests on a monthly basis. From time to time, the Bank also evaluates risk in its investment portfolios, using stress tests based on specific market events.

SENSITIVITY ANALYSIS AND SIMULATION MODELLING

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. It is applied globally to each of the major currencies within the Bank's operations. Simulation models enable the Bank to assess interest rate risk under a variety of scenarios over time. The models incorporate assumptions about growth, planned business mix, changes in interest rates, shape of the yield curve, embedded product options, maturities and other factors. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers.

GAP ANALYSIS

Gap analysis is used to assess the interest rate sensitivity of the Bank's retail, wholesale banking and international operations. Under gap analysis, interest rate sensitive assets, liabilities and off-balance sheet instruments are assigned to defined time periods on the basis of expected re-pricing dates. A liability gap occurs when more liabilities than assets are subject to interest rate changes during a given time period. Conversely, an asset sensitive position arises when more assets than liabilities are subject to rate changes.

Funding and Investment Activities

The Bank's asset liability management processes focus on identifying, measuring and controlling the market risks arising in the Bank's funding and investment activities. The Liability Committee meets weekly to review risks and opportunities, and to evaluate performance.

INTEREST RATE RISK

Interest rate risk arises from the impact that changes in interest rates may have on income and economic value due to the mismatch between positions that are subject to interest rate adjustment within a specified period.

The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within prudent 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 annual income and economic value. The annual income limit measures the effect of a specified shift in interest rates on the Bank's 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

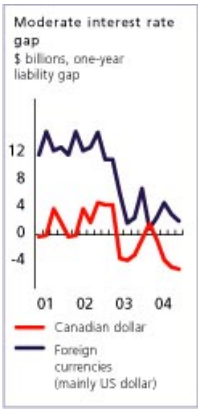
Table 12 Interest rate gap

Interest rate sensitivity position[1] As at October 31, 2004 ($ billions)	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	Total
Canadian dollars					
Assets	$ 100.7	$ 17.5	$46.0	$ 7.0	$171.2
Liabilities	90.4	22.7	38.7	19.4	171.2
Gap	10.3	(5.2)	7.3	(12.4)	
Cumulative gap	10.3	5.1	12.4	–	
Foreign currencies					
Assets	78.2	7.1	13.4	9.3	108.0
Liabilities	80.9	6.4	4.3	16.4	108.0
Gap	(2.7)	0.7	9.1	(7.1)	
Cumulative gap	(2.7)	(2.0)	7.1	–	
Total					
Gap	$ 7.6	$ (4.5)	$16.4	$ (19.5)	
Cumulative gap	7.6	3.1	19.5	–	
As at October 31, 2003:					
Gap	$ (1.2)	$ (1.3)	$24.8	$ (22.3)	
Cumulative gap	(1.2)	(2.5)	22.3	–	

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

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

The chart at right illustrates trends in interest rate gaps. As at October 2003, the Bank had a moderate one-year liability gap in Canadian dollars. During the first quarter of fiscal 2004, the Bank took steps to move to an asset gap exposure in anticipation of rising rates. This asset gap exposure was progressively increased throughout the remainder of fiscal 2004. The Canadian dollar margin declined in 2004 as a result of low interest rates during the year, competitive pressures, and a change in asset mix.



The Bank maintained a one-year liability gap in foreign currencies throughout fiscal 2004. Overall, foreign currency margins increased slightly in 2004.

Based on the Bank's interest rate positions at year end 2004, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income after tax by approximately $65 million over the next 12 months. During fiscal 2004, this measure has ranged between $36 million and $110 million. This same shock would reduce the after-tax present value of the Bank's net assets by approximately $355 million. During fiscal 2004, this measure has ranged between $255 million and $363 million.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk of loss due to changes in foreign exchange rates.

Foreign currency risk arising from the Bank's funding and investment activities includes that from the Bank's net corporate foreign currency positions (loans, investments and other assets less deposits and other funding) and from its net investments in self-sustaining foreign operations (both subsidiaries and branches). The Bank's exposure is subject to a Board-approved limit and is reviewed quarterly by the Liability Committee. To mitigate the foreign currency exposure in its corporate position, the Bank customarily funds assets with liabilities in the same currency, When economically feasible, the Bank will hedge the foreign currency exposure with respect to its net investments in self-sustaining foreign operations primarily by funding the investments in the same currency.

In accordance with GAAP, foreign currency translation gains and losses from corporate positions are recorded in earnings, while foreign currency translation gains and losses from net investments in self-sustaining operations are recorded in the cumulative foreign currency translation account within shareholders' equity. While gains/losses on net investments may increase/reduce the Bank's capital, depending on the strength or weakness of the Canadian dollar against other currencies, the Bank's regulatory capital ratios are not materially affected, since the risk-weighted assets of the foreign operations rise or fall in about the same proportion as the change in capital.

The Bank is also subject to foreign currency translation risk on the earnings of its foreign operations. The Bank projects its foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, out over a number of future fiscal quarters. The Liability Committee assesses economic data and forecasts and decides on the portion of the estimated future foreign currency revenues and expenses to hedge. Hedging instruments would normally include foreign currency spot and forward contracts, as well as foreign currency options.

However, recent changes to hedge accounting standards, effective November 1, 2003, have made it more difficult to achieve hedge accounting treatment for these economic hedges. Consequently, this has the potential for a mismatch in the timing of the recognition of economic hedge gains/losses with the underlying foreign earnings translation losses/gains.

The translation effect of the strengthening of the Canadian dollar on the Bank's earnings is summarized on page 33. In the absence of hedging activity, a one per cent increase (decrease) in the Canadian dollar against all the currencies in which we operate, decreases (increases) our earnings by approximately $23 million before tax. A similar change in the Canadian dollar would decrease (increase) the foreign currency translation account in shareholder's equity by approximately $70 million.

INVESTMENT PORTFOLIO RISKS

The Bank holds investment portfolios for liquidity, longer-term capital appreciation or attractive after-tax yields. These portfolios expose the Bank to interest rate, credit spread and equity risk. Debt investments primarily consist of government 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 subject to a Board-approved policy and limits.

As at October 31, 2004, the market value of the Bank's investment securities portfolio was a substantial $1,048 million over book value, compared to a $703 million surplus over book value at the end of fiscal 2003. The majority of this increase related to the Bank's unrealized gain on its investment holding in Shinsei Bank.

Trading Activities

Trading is primarily customer focused, but also includes a proprietary component. 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.

The Board of Directors annually approves aggregate VAR and stress testing limits for the Bank's trading portfolios, and reviews the results quarterly. Within the policy and limit framework established by the Board, the Market Risk Management and Policy Committee establishes detailed trading policies, product and risk limits, including VAR limits by business line.

The Bank's independent risk management units develop, execute and analyze stress testing, sensitivity analysis, VAR calculations and valuation processes, and review and participate in new product development. Models that are used for financial reporting or limit monitoring are independently validated prior to implementation and are subject to formal periodic review.

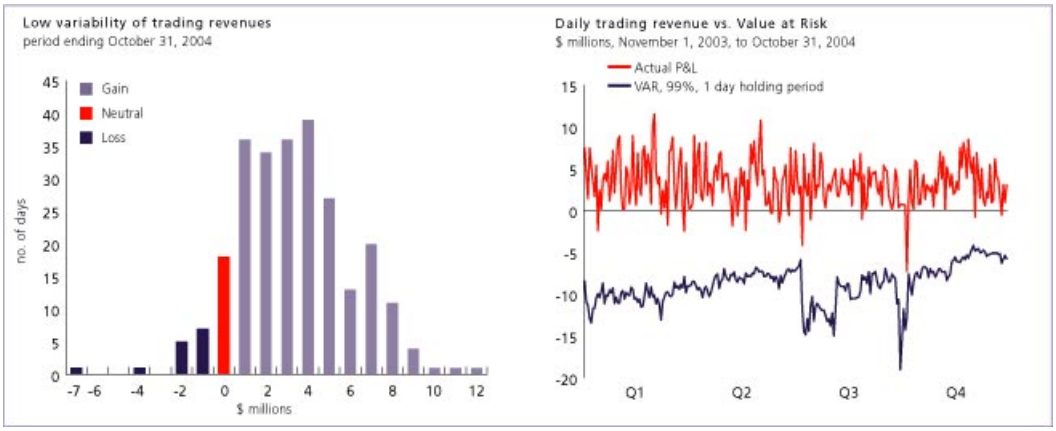
Trading positions are marked to market daily in accordance with valuation policies established by Global Risk Management. Valuations are independently reviewed by back office or risk management units on a regular basis. These units provide profit and loss reporting, as well as VAR and limit compliance reporting to business unit management and executive management for evaluation and action where appropriate.

In fiscal 2004, the one-day VAR for trading activities averaged $8.8 million, compared to $9.0 million in 2003.

The histogram below shows the distribution of daily trading revenue for fiscal 2004. Trading revenue averaged $3.0 million per day, compared to $3.1 million for 2003. Revenue was positive on more than 92% of trading days during the year, compared to 89% in 2003.

During the year, the largest single day loss was $7.3 million. This was the result of a significant decline in interest rates on August 6, 2004.

The following table shows the VAR by risk factor. Interest rate exposure has increased from an average of $5.7 million in fiscal 2003 to $7.9 million in fiscal 2004, offset by declines in the average foreign exchange and equity risk factors.



One-day VAR by risk factor (average, in $ millions)

millions	2004 Year end	Avge.	High	Low	2003 Year end	Avge.	High	Low
Interest rate	3.6	7.9	19.5	2.6	8.5	5.7	12.7	2.7
Equities	4.0	4.3	8.3	2.1	6.4	5.6	8.9	2.3
Foreign exchange	1.5	1.4	3.2	0.2	1.0	2.8	8.8	0.1
Commodities	0.7	0.8	1.8	0.4	1.2	0.7	1.8	0.3
Diversification effect	(4.5)	(5.6)	N/A	N/A	(6.5)	(5.8)	N/A	N/A
All Bank VAR	5.3	8.8	19.0	4.2	10.6	9.0	16.1	5.8

Derivative products and Structured Transactions

DERIVATIVES

The Bank uses derivatives to manage market and credit risks arising from its funding and investment activities, and to lower its cost of capital. The Bank uses several types of derivative products, including interest rate swaps, futures and options, to hedge interest rate risk exposure. Forward contracts, swaps and options are also used to manage foreign currency risk exposures. As a dealer, the Bank markets derivatives to its customers and takes positions for its own account.

Market risk arising from derivatives transactions is subject to the control, reporting and analytical techniques noted under Trading Activities. Additional controls and analytical techniques are applied to address certain market-related risks that are unique to derivative products.

To control credit risk, the Bank applies limits to each counterparty, measures exposure as the current fair value plus potential future exposure, and uses credit mitigation techniques, such as netting and collateralization. The Bank's derivatives portfolio is composed primarily of short-term instruments with high-quality counterparties. Investment grade counterparties account for 88% of the credit risk amount arising from the Bank's derivative transactions, down slightly from 90% last year.

The Bank's use of credit derivatives increased year over year, as notional principal amounts rose by $1.5 billion to $18.8 billion. The growth was in the Bank's trading businesses, where the activity includes trading with customers, structured transactions and modest proprietary trading. Net credit derivative trading exposures were not significant. The Bank also transacts credit derivatives in its investment and loan portfolios, although this activity has declined from last year. Credit protection sold is used as an alternative to bond or loan assets, while credit protection bought is used to manage credit exposures. As at October 31, 2004, the notional value of credit default swaps sold in the investment and credit portfolios was $0.7 billion and the notional value bought was $0.5 billion.

Derivative products used for asset/liability management (non-trading) purposes are economic hedges. They must meet specified designation, documentation and effectiveness testing requirements to qualify for hedge accounting treatment. Further details on the accounting for derivatives can be found in Note 1 of the 2004 consolidated financial statements on page 92.

STRUCTURED TRANSACTIONS

Structured transactions are specialized transactions that may involve combinations of cash 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 General Counsel departments. All large structured derivatives transactions are also subject to review by senior risk management committees. Structured finance transactions are also 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.

Managing liquidity risk is essential to maintaining the confidence of depositors and counterparties. It is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives regular reports on risk exposures and performance against approved limits. The Liability Committee provides senior management oversight of liquidity risk and meets weekly to review the Bank's liquidity profile.

The key elements of the framework used to manage liquidity risk are:

- Set limits to control the key elements of risk;
- Measure and forecast cash commitments;
- Diversify funding sources;
- Maintain appropriate holdings of liquid assets;
- Conduct regular liquidity crisis stress testing; and
- Maintain contingency plans that can be activated to facilitate managing through a disruption.

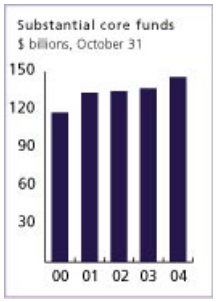
Liquidity Profile

The Bank maintains large holdings of liquid assets to support its operations. These assets can be sold or pledged to meet the Bank's obligations. As at October 31, 2004, liquid assets were $69 billion (2003 – $75 billion), equal to 25% of total assets versus 26% the previous year. These assets consist of securities,

75% (2003 – 73%), and cash and deposits with banks, 25% (2003 – 27%). The year-over-year decline in liquid assets is due to lower balances of Government of Canada and other debt securities and deposits with other banks, partially offset by an increase in equity securities.

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, 2004, total assets pledged or sold under repurchase agreements were $33 billion (2003 – $44 billion). The year-over-year decline is attributable primarily to a reduced level of securities sold under repurchase agreements.

Funding



Scotiabank relies on a broad range of funding sources. The principal sources of funding are capital, deposits drawn from retail and commercial clients in the Bank's extensive domestic and international branch network, and wholesale funding. To ensure that the Bank does not place undue reliance on a single entity as a funding source, the Bank maintains a limit on the amount of deposits it will accept from any one entity. Core funds, represented by capital and core deposits of the Bank's retail and commercial clients, were $146 billion as at October 31, 2004, versus $137 billion last year. This increase arose from higher retail and commercial deposits. As at October 31, 2004, the Bank's core funds represented 52% of total funding (2003 – 48%).

Contractual Obligations

The table below provides aggregated information about the Bank's contractual obligations at October 31, 2004, which affect the Bank's liquidity and capital resource needs. The Bank's contractual obligations include contracts and purchase obligations, including agreements to purchase goods and services, that are enforceable and legally binding on the Bank. The table excludes deposit liabilities (except term funding), other short-term financing arrangements, lending commitments and pension and other retirement benefit obligations, which are discussed in Notes 9, 21, 20 and 16, respectively, of the 2004 consolidated financial statements.

Contractual Obligations

($ millions)	Within 1 year	1-3 years	4-5 years	Over 5 years	Total
Term funding					
Wholesale deposit notes	4,368	3,945	3,754	645	12,712
Euro MTN	2,768	3,813	473	–	7,054
Subordinated debentures	–	–	305	2,310	2,615
Other long-term liabilities	290	385	–	1,188	1,863
Subtotal	7,426	8,143	4,532	4,143	24,244
Operating leases	162	221	135	172	690
Outsourcing obligations	165	329	186	468	1,148
Total	7,753	8,693	4,853	4,783	26,082

The Bank has a number of note issuance programs to broaden its base of term funding. In 2004, the Bank issued $2,156 million in euro medium-term notes, $5,112 million in deposit notes in the domestic market, and $603 million of Yankee certificates of deposit and other instruments.

The Bank issues subordinated debentures as part of its capital management program. In 2004, there was no change in the debentures issued and outstanding.

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

Table 13 Liquidity

For the fiscal years ($ millions)	2004	2003	2002	2001	2000
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	$ 356	$ 647	$ 868	$ 1,062	$ 648
Deposits with other banks	1,255	1,382	686	1,124	1,131
Securities	32,211	34,234	30,310	25,284	22,129
Call and short loans	–	–	–	–	–
	33,822	36,263	31,864	27,470	23,908
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	2,624	2,388	2,370	2,147	1,598
Deposits with other banks	12,920	16,163	16,348	15,827	15,368
Securities	19,344	20,254	16,194	17,702	12,058
Call and short loans	–	–	–	291	–
	34,888	38,805	34,912	35,967	29,024
Total liquid assets					
Cash and deposits with Bank of Canada	2,980	3,035	3,238	3,209	2,246
Deposits with other banks	14,175	17,545	17,034	16,951	16,499
Securities	51,555	54,488	46,504	42,986	34,187
Call and short loans	–	–	–	291	–
	$68,710	$75,068	$66,776	$63,437	$52,932

Liquid assets as a % of total assets	24.6%	26.3%	22.5%	22.3%	20.9%

The Bank leases a large number of its branches, office 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 $170 million in 2004.

The Bank has entered into two major outsourcing contracts. The largest is a seven-year contract with IBM Canada entered into in 2001 to manage the Bank's domestic computer operations, including data centres, branches, ABMs and desktop computers. 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. Both outsourcing contracts are cancellable with notice.

Capital Commitments

Scotiabank has an ongoing program of capital investment to provide the necessary level of technology and real estate resources to service our customers and meet new product requirements. All major capital expenditures go through a rigorous review and approval process.

Total capital expenditures were $158 million in 2004, comparable with 2003. Of this, 41% was in technology-related spending, particularly for upgraded telecommunications equipment, new ABMs and computer hardware. Real estate spending comprised the remaining 59% of capital expenditures for 19 new branches and offices, and the renovation or expansion of existing locations.

Operational Risk

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to external events, human error, or the inadequacy or failure of processes, procedures or controls. Operational risk, in some form, exists in each of the Bank's business and support activities. Operational risk can result in financial loss, regulatory sanctions and damage to the Bank's reputation.

The Bank has developed policies, standards and assessment methodologies to ensure that operational risk is appropriately identified, managed and controlled within each business line. The key policies and standards include:

- An operational risk management policy approved by the Board of Directors;
- Processes to identify and assess operational risks in relation to changes to products and systems and new initiatives;
- Defined and documented approval authorities;
- Appropriate segregation of duties and delegated authority;
- Compliance programs to ensure the Bank's adherence to regulatory requirements;
- A business continuity planning process, including business resumption plans for all key operations, and appropriate back-up facilities to ensure the availability of service delivery; and
- Risk mitigation through insurance, where feasible and appropriate.

In addition to the policies and standards outlined above, the internal audit department, through regular risk-based audits, provides independent, objective assessment that controls and operating processes are properly designed and operating effectively.

The Bank has a central operational risk management unit, which is part of Global Risk Management. This unit is responsible for:

- Defining, developing, recommending and, in conjunction with business and support units, implementing high-level operational risk policies;
- Collecting data on operational losses and providing reporting to executive and line management;
- Operating a guided self-assessment program; and
- Reviewing industry best practices and regulatory requirements, and providing guidance to business units with respect to these issues.

The central operational risk management unit is responsible for the guided self-assessment program, which entails reviews of significant operations to identify and assess operational risks. Where appropriate, line management develops action plans to mitigate identified risks. Results of these reviews are summarized and reported to executive management.

Reputational Risk

Reputational risk is the risk that negative publicity regarding the Bank's business practices, whether true or not, will adversely affect the Bank's operations or customer base, or will 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 General Counsel, Corporate Secretary, Public, Corporate & Government Affairs and Compliance departments, and the Bank's Reputational Risk Committee, are particularly oriented to the management of reputational risk.

In providing credit or advice to customers, the Bank considers whether the transaction or relationship might give rise to reputational risk. The Bank has an established Board-approved policy and procedures for managing reputational and legal risk relative to structured finance transactions. As well, the Reputational Risk Committee is available to support other risk management committees and business units with their assessment of reputational risk associated with complex products and transactions.

To ensure that the Bank enters into transactions that are, and will be seen to be, congruent with high ethical standards, the committee considers a broad array of factors when assessing transactions including: 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; conflict 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, to ensure 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 implemented an environmental policy in 1991 which, with Board approval, has been periodically updated. This policy – which guides our day-to-day operations, lending practices, supplier agreements and the management of our real estate holdings – is supplemented by specific policies and practices relating to individual business lines.

The Environmental Lending Policy, for example, ensures appropriate consideration is given to environmental risks associated with the business operations of each borrower. Such considerations are factored into the Bank's credit evaluation procedures.

Environmental concerns also play a prominent role in shaping our real estate practices. The Real Estate Department adheres to an Environmental Compliance Policy to ensure responsible management of the Bank's real estate holdings. In addition, considerable recycling and resource management programs are in place in the Bank's corporate offices and branch networks.

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.

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

Controls and Procedures

Management's responsibility for financial information contained in this Annual Report is described on page 84. In addition, the Bank's Audit and Conduct Review Committee of the Board of Directors has reviewed this Annual Report, and the Board of Directors has reviewed and approved this document prior to its release. The Bank is committed to providing timely, accurate and balanced disclosure of all material information about the Bank and to providing fair and equal access to such information. The Bank's disclosure policies and practices are published on its website.

As of October 31, 2004, the Bank's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined under the rules adopted by the U.S. Securities and Exchange Commission (SEC). This evaluation was performed under the supervision of, and with the participation of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). In addition, the Bank's management has assessed whether during the 2004 fiscal year there have been any significant 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.

Disclosure controls are procedures designed to ensure that information required to be disclosed in reports filed with securities regulatory agencies is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Bank's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Internal control over financial reporting is a process designed by, or under the supervision of, senior management, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Bank's consolidated financial statements in accordance with Canadian generally accepted accounting principles.

The Bank's management, including the CEO and the CFO, does not expect that the Bank's disclosure controls or internal control over financial reporting will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Bank have been detected.

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

- the Bank's disclosure controls are effective in ensuring that material information relating to the Bank, including its consolidated subsidiaries, is made known to management on a timely basis, and is fairly presented in all material respects in this Annual Report; and

- during the 2004 fiscal year, to the best of their knowledge and belief, 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.

The Bank is continually evolving and enhancing its systems of controls and procedures. Based on current SEC rules, the CEO and CFO will be required to certify annually, commencing October 31, 2005, that they have evaluated the effectiveness of the design and operation of internal control over financial reporting and must provide an annual report on internal control over financial reporting. The shareholders' auditors will be required to attest to and report on management's assessment. A significant effort is under way to meet this new reporting requirement.

Summary of Critical Accounting Estimates

The Bank's accounting policies are integral to understanding and interpreting the financial results reported in this Annual Report. The significant accounting policies used in preparing the Bank's consolidated financial statements are summarized in Note 1 to those statements. Certain of those policies are considered to be particularly important to the presentation of the Bank's financial position and results of operations, because they require management to make difficult, complex or subjective judgments and estimates, often as a result of matters that are inherently uncertain. The following is a discussion of those critical accounting estimates. These estimates are adjusted in the normal course to reflect changing underlying circumstances. However, there were no significant adjustments to these estimates, except as noted under Allowance for Credit Losses.

Allowance for credit losses

The allowance for credit losses represents management's estimate of the probable incurred losses inherent in the portfolio of deposits with banks, securities purchased under resale agreements, loans, acceptances and other indirect credit commitments, such as letters of credit and guarantees. Management undertakes regular reviews of credit quality to

determine the adequacy of the allowance for credit losses. This determination requires management to make difficult, complex or subjective judgments and estimates at many levels, including identifying credits that are impaired, considering factors specific to individual credits, as well as the impact of portfolio characteristics and risks. Changes to these estimates, or the use of different but also reasonable judgments and estimates, could have a direct impact on the provision for credit losses and could result in a change in the related allowance.

In determining specific allowances applicable to individual credit exposures, management must first form a judgment as to whether a loan is impaired, and then as to its estimated net realizable value, based on available evidence about the individual borrower. This process requires management to make a number of significant judgments and estimates, including estimates as to the amount and timing of future cash flows, the fair value of any underlying security, costs of realization, observable market prices, and expectations about the future prospects of the borrower and any guarantors.

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

With the overall improved credit quality of the loan portfolio, management's best estimate of losses on impaired loans resulted in a reduction in the specific provisions for credit losses in 2004.

The general allowance is intended to estimate probable incurred losses inherent in the loan portfolio that have not yet been identified on an item-by-item basis. Many factors can affect management's estimate of the required level of the general allowance, including historical default probabilities, loss severity in the event of default and exposure at default. The Bank applies estimates of these parameters in its internally developed model to arrive at an initial quantitative estimate. If the probability of default or the loss severity parameters for the non-retail portfolio were independently increased or decreased by 10%, the model would indicate an increase or decrease to the quantitative estimate of approximately $60 million each.

Senior management forms a judgment as to whether adjustments are necessary to the initially calculated amounts. Considerations include observable data, such as economic trends and business conditions, portfolio concentrations, risk migrations and recent trends in volumes and severity of delinquencies. The general allowance is reviewed each quarter to ensure the amount is appropriate in relation to the size of the portfolio, inherent credit risks and trends in portfolio quality.

In the past year, the initial quantitative estimate has declined due primarily to the lower levels of corporate and commercial loans, and the improved credit quality of these portfolios. The positive aspects of these factors were tempered by judgments made about the potential impact of rising energy prices and the substantial strengthening of the Canadian dollar. However, if there is sustained improvement in the credit quality of the commercial and corporate loans, the general allowance may be further reduced in 2005.

Fair value of financial instruments

Financial instruments held for trading purposes, including trading securities and derivatives, are carried at fair value, with changes in fair value recorded in the income statement. Most trading securities are recorded at quoted market prices. Trading derivatives, which include derivatives transacted with customers to accommodate their risk management needs and derivatives used to generate trading income from the Bank's proprietary trading positions, are recorded at quoted market prices, where available. Where quoted market prices are not available, fair values are determined using other valuation techniques, including discounted cash flow and option pricing models that are based on independently sourced market interest rate yield curves, foreign currency rates and option volatility factors. As at October 31, 2004, 97% of the gross fair value of trading derivatives is based primarily on internal models with significant observable market parameters or quoted market prices. For trading securities, approximately 99% of the portfolio is fair valued based on quoted market prices.

Management applies judgment in the selection of the models and the various inputs, as well as in the determination of any valuation adjustments to cover future risks and related costs. Any imprecision in these estimates can affect the recorded fair value. However, the impact of any changes in these estimates – for example, for model imprecision or liquidity – is not expected to be significant.

Other-than-temporary impairment of investment securities

Investment securities comprise debt and equity securities held for liquidity and longer-term investment. Investment securities are held at cost or, in the case of debt securities, at amortized cost. In circumstances where management determines that an other-than-temporary impairment of an investment security has occurred, the carrying value of the security is written down to its estimated net realizable value. This determination involves a number of judgments and estimates.

Management's judgment as to the existence of an other-than-temporary impairment takes into account the length of time that the fair value of a security has been below its carrying value, prospects for recovery in fair value, and factors such as the company's financial condition and future prospects. Once management has determined that the security has suffered an other-than-temporary decline in value, management must form a judgment as to the estimated net realizable value of the security. In making this estimate, 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.

As at October 31, 2004, the gross unrealized gains on individual investment securities were $1,427 million, and the gross unrealized losses were $73 million, combining for a net unrealized gain of $1,354 million before related derivative and other hedge amounts ($1,048 after related derivative and other hedge amounts). Management does not expect these losses to be realized, as they have been judged to be temporary.

Pensions and other employee future benefits

The Bank provides pension and other future benefit plans for qualified employees in Canada, the United States and other international operations.

The cost of these employee future benefits is actuarially determined each year. The calculation uses management's best estimate of a number of assumptions, as discussed in Note 1 of the 2004 consolidated financial statements on page 90. The critical assumptions made by management are the long-term rate of investment return on plan assets, future compensation and health care costs. Management applies judgment in the selection of these assumptions, based on regular reviews of historical investment returns, salary increases and health care costs. Expectations regarding future economic trends and business conditions, including inflation rates, are also considered.

Actual experience will differ from the assumptions made by management, resulting in a net actuarial gain or loss that will cause the benefit expense for future years to increase or decrease. Rather than being recognized in income immediately, 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 into income over the estimated average remaining service period of active employees ranging from 11 to 20 years.

Management's assumptions, along with a sensitivity analysis of changes in these assumptions on both the benefit obligation and the benefit expense, are disclosed in Note 16 of the 2004 consolidated financial statements on page 107. The assumption with the greatest sensitivity impact is the assumed long-term rate of return on assets. If this assumed long-term rate of return on assets was 1% lower (higher), the benefit expense for 2004 would have been $35 million higher (lower). Over the past 10-year period, the actual annualized rate of return on the assets for the Bank's main pension plan exceeded the assumed annualized rate by 3%, notwithstanding lower returns in recent years.

The discount rate is another critical assumption used to calculate the cost of employee future benefits, though this rate is generally prescribed to be equal to the current yield on long-term, high-quality corporate bonds with a duration similar to the duration of the benefit obligation. Thus, management applies very little judgment in selecting this rate.

Corporate income taxes

The provision for income taxes and future income tax assets and liabilities represent management's estimate of the income tax consequences of transactions and events during the period. In determining the accounting for income taxes, tax legislation in a variety of jurisdictions is interpreted and assumptions are made about the expected timing of the reversal of temporary differences that result from the different treatment of items for tax and accounting purposes. In addition, the valuation of future income tax assets related to tax loss carryforwards requires management to assess whether it is more likely than not that benefits will be realized prior to expiration. Total gross future tax assets relating to subsidiaries' unused income tax losses arising in prior years were $180 million as at October 31, 2004 (2003 – $295 million), for which the Bank established a valuation allowance of $84 million (2003 – $189 million) due to the uncertainty in realizing these losses. These tax loss carryforwards expire by 2006. The Bank will adjust the valuation allowance if and when there is greater certainty of realizing this future asset.

The Bank's total net future income tax asset, including the net amount for tax loss carryforwards, was $999 million as at October 31, 2004 (2003 – $912 million). Note 1 on page 92 of the 2004 consolidated financial statements contains further details on the significant accounting policies underlying accounting for income taxes, and Note 15 on page 105 provides further information with respect to our provisions for income taxes.

Changes in accounting policies

The Bank's significant accounting policies are set out in Note 1 on pages 90 to 94 of the 2004 consolidated financial statements. Included in Note 1 is a description of the changes to accounting policies in 2004. These changes were a result of new accounting standards that were required to be adopted on a prospective basis in 2004.

- The Bank adopted a new accounting guideline for hedging relationships, issued by the CICA, which establishes more stringent and formalized conditions for the use of hedge accounting.
- Qualifying costs incurred on a prospective basis for computer software are capitalized and depreciated, rather than being expensed as incurred.
- The country risk allowance is no longer disclosed as part of the allowance for credit losses, but continues to be deducted from investment securities.

These accounting policy changes did not have a material impact on the Bank's financial condition, results of operations or changes in financial condition for fiscal 2004.

As well, in 2004 the Bank was required to change the balance sheet presentation of certain types of cheques and other items in transit on a prospective basis, as a result of a new CICA standard for financial reporting that eliminated industry practice as a source of generally accepted accounting principles. This change in balance sheet presentation was not material to the Bank's consolidated financial position, and also resulted in these items not being classified as part of cash and cash equivalents in the consolidated statement of cash flows as discussed more fully in footnote 2 on page 88 of the 2004 consolidated financial statements.

There are two future accounting standard changes that will be effective for the Bank's 2005 consolidated financial statements:

- The Bank will be required to consolidate variable interest entities (VIEs) where the Bank is the primary beneficiary of the VIE. This accounting standard permits prospective application, which is the method of adoption that the Bank has chosen to apply.
- Certain financial instruments that have the characteristics of a liability and equity, which are currently recorded as equity, will be retroactively classified as a liability and the comparative financial statements will be restated.

These future changes and the expected impact on the Bank are described in greater detail in Note 2 on page 94 of the 2004 consolidated financial statements.

Related Party Transactions

In the ordinary course of business, the Bank provides normal banking services to its associated and other related corporations on terms similar to those offered to non-related parties.

In Canada, loans are currently granted to directors and officers at market terms and conditions. Effective March 1, 2001, in Canada the Bank discontinued the prior practice of granting loans to officers and employees at reduced rates. Any 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 foreign units at reduced rates or on preferred terms. Loans to executive officers of the Bank totaled $2.8 million as at October 31, 2004, and loans to directors totaled $0.5 million.

Directors can use some or all of their fees to buy common shares at market rates through the Directors' Share Purchase Plan. Commencing in 2004, the Bank no longer grants stock options to non-officer directors (refer to Note 14 of the 2004 consolidated financial statements on pages 103 and 104).

The Bank may also enter into commercial arrangements with companies controlled by directors. These commercial arrangements are conducted at market terms and conditions and follow the normal credit and other review processes within the Bank. The Bank's committed credit exposure to companies controlled by directors totaled $587 million as at October 31, 2004, while actual utilized amounts were $408 million.

The Bank has various processes in place to ensure that related party information is identified and reported to the Audit and Conduct Review Committee (ACRC) of the Board of Directors on a semi-annual basis. The oversight provided by the ACRC meets the requirements of the Bank Act, and encompasses a broader definition of related party transactions than is set out in generally accepted accounting principles. The ACRC has the responsibility for reviewing policies and practices of the Bank to identify transactions with its related parties that may materially affect the Bank, and reviewing the procedures for ensuring compliance with the Bank Act for related party transactions. 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 ACRC is provided with detailed reports that reflect the Bank's compliance with its established procedures.

The Bank's Audit Department carries out audit procedures as necessary to provide the ACRC with reasonable assurance that the Bank's policies and procedures with respect to the identification, authorization and reporting of related party transactions are appropriately designed and operating effectively.

Table 14 Geographic distribution of earning assets

As at September 30 ($ billions)	2004 Balance	2004 % of earning assets	2003	2002	2001	2000
North America						
Canada	**$166.9**	**64.4%**	$158.5	$147.8	$135.3	$133.0
United States	**25.0**	**9.7**	34.1	46.4	43.1	44.0
	191.9	**74.1**	192.6	194.2	178.4	177.0
Europe						
United Kingdom	**7.4**	**2.9**	8.1	10.2	10.4	9.2
Germany	**3.5**	**1.3**	2.9	2.8	3.5	3.3
Ireland	**2.0**	**0.8**	1.4	1.6	1.4	0.9
France	**1.1**	**0.4**	1.5	1.4	1.5	1.9
Netherlands	**0.8**	**0.3**	1.5	1.1	1.0	0.6
Other	**3.4**	**1.3**	4.8	5.0	5.6	4.4
	18.2	**7.0**	20.2	22.1	23.4	20.3
Asia						
India	**2.0**	**0.8**	1.1	1.1	1.1	0.9
Malaysia	**1.4**	**0.5**	1.5	1.6	1.7	1.3
South Korea	**1.4**	**0.5**	1.8	2.3	1.5	1.4
Japan	**1.1**	**0.4**	1.7	1.6	1.4	1.3
Hong Kong	**0.9**	**0.4**	1.0	1.2	1.4	2.0
Other	**2.4**	**1.0**	2.0	2.2	1.9	1.5
	9.2	**3.6**	9.1	10.0	9.0	8.4
Caribbean						
Jamaica	**3.0**	**1.1**	2.6	3.4	3.2	2.8
Puerto Rico	**1.9**	**0.7**	2.1	2.6	2.4	2.1
Bahamas	**1.7**	**0.7**	1.7	1.8	1.7	1.5
Trinidad &Tobago	**1.5**	**0.6**	1.6	1.7	1.7	1.5
Other	**6.7**	**2.6**	6.4	6.9	5.2	4.6
	14.8	**5.7**	14.4	16.4	14.2	12.5
Latin America						
Mexico	**18.7**	**7.2**	18.2	20.3	19.7	1.5
Chile	**3.3**	**1.3**	3.4	3.6	3.0	3.1
Argentina	**—**	**—**	—	0.2	3.7	3.7
Other	**3.5**	**1.3**	3.7	3.7	3.9	3.3
	25.5	**9.8**	25.3	27.8	30.3	11.6
Middle East and Africa	**0.7**	**0.3**	0.4	0.5	0.4	0.4
General allowance(1)	**(1.4)**	**(0.5)**	(1.5)	(1.5)	(1.5)	(1.3)
Total	**$258.9**	**100.0%**	$260.5	$269.5	$254.2	$228.9

(1) As at October 31.

* *Certain comparative amounts in this report have been reclassified to conform with current year presentation.*

Table 15 Cross-border exposure to select countries[1]

As at October 31 ($ millions)	Loans	Interbank deposits	Trade	Government and other securities	Investment in subsidiaries and affiliates[3]	Other	2004 Total	2003 Total
Asia								
South Korea	$ 474	$ —	$ 286	$ 593	$ —	$ 5	**$1,358**	$1,635
Japan	550	91	84	437	—	76	**1,238**	1,359
Malaysia	648	—	3	396	131	3	**1,181**	1,175
India	475	55	764	57	—	18	**1,369**	903
Hong Kong	539	1	27	215	—	36	**818**	697
China	23	30	676	37	—	47	**813**	415
Other[2]	115	233	119	458	—	36	**961**	839
	2,824	410	1,959	2,193	131	221	**7,738**	7,023
Latin America								
Mexico	1,134	—	182	704	1,051	5	**3,076**	2,765
Brazil	27	—	387	375	—	—	**789**	997
Chile	427	183	2	—	226	1	**839**	884
Venezuela	3	—	—	125	74	—	**202**	241
Argentina	2	—	—	19	—	—	**21**	51
Other[4]	1,105	8	63	70	101	5	**1,352**	1,535
	2,698	191	634	1,293	1,452	11	**6,279**	6,473

(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, Taiwan and Thailand.

(3) Excludes goodwill of $104 (2003 — $111) in Chile.

(4) Includes Colombia, Costa Rica, El Salvador, Panama, Peru and Uruguay.

Table 16 Loans and acceptances by geography

Excludes reverse repos As at September 30 ($ billions)	2004	2003	2002	2001	2000	Percentage mix 2004	Percentage mix 2000
Canada							
Atlantic provinces	**$ 11.3**	$ 10.0	$ 9.4	$ 9.3	$ 9.2	**7.1%**	6.1%
Quebec	**8.4**	7.9	7.1	6.9	8.1	**5.2**	5.4
Ontario	**66.5**	60.8	55.5	51.5	50.7	**41.5**	33.7
Manitoba and Saskatchewan	**5.1**	5.0	4.8	4.8	4.4	**3.2**	2.9
Alberta	**13.7**	11.7	11.1	11.1	11.0	**8.6**	7.3
British Columbia	**13.3**	12.8	12.3	12.2	12.4	**8.3**	8.3
	118.3	108.2	100.2	95.8	95.8	**73.9**	63.7
International							
United States	**9.8**	13.8	21.5	21.5	23.5	**6.1**	15.6
Europe	**6.1**	8.0	10.8	10.3	9.3	**3.8**	6.2
Caribbean	**10.1**	10.2	11.6	10.6	9.4	**6.3**	6.3
Asia	**4.4**	4.6	4.9	5.2	5.8	**2.8**	3.9
Latin America	**12.2**	12.2	13.1	15.0	7.6	**7.6**	5.0
Middle East and Africa	**0.6**	0.4	0.3	0.3	0.3	**0.4**	0.2
	43.2	49.2	62.2	62.9	55.9	**27.0**	37.2
General allowance [1]	**(1.4)**	(1.5)	(1.5)	(1.5)	(1.3)	**(0.9)**	(0.9)
Total loans and acceptances	**$160.1**	$155.9	$160.9	$157.2	$150.4	**100.0%**	100.0%

(1) As at October 31.

Table 17 Loans and acceptances by type of borrower

Excludes reverse repos As at September 30 ($ billions)	2004 Balance	2004 % of total	2003	2002	2001
Loans to households					
Residential mortgages	**$ 68.3**	**42.7%**	$ 60.4	$ 55.9	$ 52.5
Personal loans	**29.8**	**18.6**	25.6	22.9	19.7
	98.1	**61.3**	86.0	78.8	72.2
Loans to businesses and governments					
Resource and manufacturing, excluding automotive					
Oil and gas	**3.1**	**1.9**	2.6	3.8	3.5
Mining and primary metals	**3.0**	**1.8**	3.3	4.0	4.1
Food and beverage	**2.3**	**1.5**	2.5	3.1	3.3
Agriculture	**2.2**	**1.4**	2.3	2.3	2.3
Forest products	**1.4**	**0.9**	1.6	2.6	2.5
Electrical and other machinery	**1.3**	**0.8**	1.6	2.2	3.2
Other resource and manufacturing	**4.7**	**2.9**	5.5	6.3	7.7
	18.0	**11.2**	19.4	24.3	26.6
Banks and other financial services	**7.5**	**4.7**	6.5	7.9	6.7
Real estate and construction	**5.5**	**3.4**	7.0	7.2	8.0
Wholesale and retail distribution, excluding automotive	**5.4**	**3.4**	5.7	5.1	6.6
Automotive manufacturing and distribution	**4.6**	**2.9**	4.8	5.0	5.2
Transportation	**3.6**	**2.2**	3.8	4.8	4.7
Hotels	**2.4**	**1.5**	2.9	3.0	3.1
Telecommunications and cable	**2.0**	**1.2**	3.2	4.8	4.9
Utilities	**1.9**	**1.2**	2.8	4.6	3.9
Media	**1.7**	**1.1**	2.5	2.9	2.9
Leisure and amusements	**1.7**	**1.1**	2.1	2.4	2.1
Government	**1.7**	**1.1**	1.7	1.3	1.7
Business services	**1.5**	**0.9**	1.9	2.2	2.3
Other services	**5.9**	**3.7**	7.1	8.1	7.8
	63.4	**39.6**	71.4	83.6	86.5
	161.5	**100.9**	157.4	162.4	158.7
General allowance[1]	**(1.4)**	**(0.9)**	(1.5)	(1.5)	(1.5)
Total loans and acceptances	**$160.1**	**100.0%**	$155.9	$160.9	$157.2

(1) As at October 31.

Table 18 Off-balance sheet credit instruments

As at October 31 ($ billions)	2004	2003	2002	2001	2000
Commitments to extend credit	**$104.2**	$110.5	$127.0	$132.6	$127.7
Standby letters of credit and letters of guarantee	**14.4**	14.2	14.8	11.5	10.8
Securities lending, securities purchase commitments and other	**4.8**	7.7	5.9	4.9	6.7
Total	**$123.4**	$132.4	$147.7	$149.0	$145.2

Table 19 Provisions for credit losses as a percentage of average loans and acceptances

For the fiscal years (%)	2004	2003	2002	2001	2000
Canada					
Residential mortgages, personal and credit cards	**0.23%**	0.26%	0.28%	0.28%	0.29%
Business	**0.23**	0.47	0.29	0.34	0.15
U.S. and Other International	**0.34**	0.70	2.06	1.22	0.87
Weighted subtotal – specific provisions	**0.27**	0.48	1.05	0.68	0.46
General provision	**(0.05)**	—	—	0.10	—
Weighted total	**0.22%**	0.48%	1.05%	0.78%	0.46%

Table 20 Changes in net impaired loans[1]

As at October 31 ($ millions)	2004	2003	2002	2001	2000
Gross impaired loans					
Balance at beginning of year	**$ 3,241**	$ 3,987	$ 4,439	$ 2,741	$2,380
New additions	**1,774**	2,634	4,843		
Declassifications, payments and loan sales	**(1,680)**	(1,936)	(1,789)		
Net additions	**94**	698	3,054	1,820	965
Acquisition of subsidiaries	**—**	—	—	906	121
Disposal of Scotiabank Quilmes operations[2]	**—**	—	(1,006)	—	—
Writeoffs	**(982)**	(927)	(2,376)	(1,165)	(781)
Foreign exchange and other	**(153)**	(517)	(124)	137	56
Balance at end of year	**2,200**	3,241	3,987	4,439	2,741
Specific allowance for credit losses					
Balance at beginning of year	**1,719**	1,892	2,705	1,502	1,236
Acquisition of subsidiaries	**—**	—	—	919	153
Specific provision for credit losses	**490**	893	2,029	1,250	765
Disposal of Scotiabank Quilmes operations[2]	**—**	—	(504)	—	—
Writeoffs	**(982)**	(927)	(2,376)	(1,165)	(781)
Recoveries	**158**	164	169	123	113
Foreign exchange and other	**(64)[3]**	(303)	(131)	76	16
Balance at end of year	**1,321**	1,719	1,892	2,705	1,502
Net impaired loans					
Balance at beginning of year	**1,522**	2,095	1,734	1,239	1,144
Net change in gross impaired loans	**(1,041)**	(746)	(452)	1,698	361
Net change in specific allowance for credit losses	**398**	173	813	(1,203)	(266)
Balance at end of year	**$ 879**	$ 1,522	$ 2,095	$ 1,734	$1,239
General allowance for credit losses	**1,375**	1,475	1,475	1,475	1,300
Balance after deducting general allowance	**(496)**	47	620	259	(61)

(1) Excludes net impaired loans pertaining to designated emerging markets in years prior to 2004.

(2) Includes foreign exchange impact.

(3) Includes $23 reclassified from country risk allowance and $8 transferred to other liabilities in 2004.

Table 21 Specific provisions for credit losses by business line

For the fiscal years ($ millions)	2004	2003	2002	2001	2000
Domestic					
Retail	**$ 207**	$ 204	$ 197	$ 185	$ 184
Commercial	**110**	68	85	98	26
	317	272	282	283	210
International					
Latin America[1]	**4**	(29)	434	162	99
Caribbean	**53**	84	73	62	61
Asia	**14**	17	13	25	16
Europe	**(1)**	1	3	1	9
	70	73	523	250	185
Scotia Capital					
Canada	**(15)**	124	37	38	33
United States	**54**	270	1,131	671	308
Other	**67**	155	79	45	71
	106	549	1,247	754	412
Other	**(3)**	(1)	(23)	(37)	(42)
Total	**$ 490**	$ 893	$2,029	$1,250	$ 765

(1) Includes reversals of $64 in 2003 and charge of $454 in 2002 of specific provisions with respect to Argentina, including cross-border exposure.

Table 22 Specific provisions for credit losses by type of borrower

For the fiscal years ($ millions)	2004	2003	2002
Personal loans	**$241**	$246	$ 241
Businesses and governments			
Resource and manufacturing, excluding automotive			
Oil and gas	**—**	(51)	9
Food and beverage	**60**	54	138
Forest products	**(6)**	19	15
Agriculture	**41**	25	3
Electrical and other machinery	**(7)**	42	57
Primary metals and mining	**10**	56	(2)
Other	**15**	25	181
	113	170	401
Automotive manufacturing and distribution	**20**	34	3
Banks and other financial services	**—**	—	(23)
Transportation	**(24)**	140	4
Wholesale and retail distribution, excluding automotive	**81**	25	20
Utilities	**28**	113	180
Telecommunications and cable	**2**	27	552
Real estate and construction	**6**	55	53
Media	**—**	—	24
Hotels	**(6)**	30	(1)
Government	**1**	1	1
Business services	**—**	67	33
Leisure & amusements	**(16)**	14	4
Other services	**44**	35	83
	249	711	1,334
	490	957	1,575
Argentina	**—**	(64)	454
Total specific provisions	**$490**	$893	$2,029

Table 23 Non-performing loans by type of borrower

	2004			2003		
Excluding reverse repos As at October 31 ($ millions)	**Net**	**Allowance for credit losses**	**Gross**	**Net**	**Allowance for credit losses**	**Gross**
Personal loans	**$ 135**	**$ (460)**	**$ 595**	$ 321	$ (436)	$ 757
Businesses and governments						
Resource and manufacturing, excluding automotive						
Oil and gas	**—**	**—**	**—**	—	—	—
Food and beverage	**36**	**(97)**	**133**	50	(88)	138
Forest products	**3**	**(7)**	**10**	10	(29)	39
Agriculture	**18**	**(28)**	**46**	14	(51)	65
Electrical and other machinery	**32**	**(30)**	**62**	49	(59)	108
Primary metals and mining	**24**	**(63)**	**87**	58	(88)	146
Other	**64**	**(75)**	**139**	69	(91)	160
	177	**(300)**	**477**	250	(406)	656
Automotive manufacturing and distribution	**21**	**(29)**	**50**	42	(66)	108
Banks and other financial services	**9**	**(10)**	**19**	2	(9)	11
Transportation	**32**	**(49)**	**81**	100	(140)	240
Wholesale and retail distribution, excluding automotive	**40**	**(88)**	**128**	20	(66)	86
Utilities	**157**	**(121)**	**278**	156	(138)	294
Telecommunications and cable	**193**	**(38)**	**231**	300	(86)	386
Real estate and construction	**41**	**(112)**	**153**	69	(124)	193
Media	**3**	**(16)**	**19**	7	(19)	26
Hotels	**18**	**(25)**	**43**	169	(70)	239
Government	**—**	**(3)**	**3**	—	(3)	3
Business services	**3**	**(8)**	**11**	15	(19)	34
Leisure & amusements	**2**	**(10)**	**12**	51	(40)	91
Other services	**48**	**(52)**	**100**	20	(97)	117
	744	**(861)**	**1,605**	1,201	(1,283)	2,484
	879	**(1,321)**	**2,200**	1,522	(1,719)	3,241
Allowance for credit losses - general	**(1,375)**			(1,475)		
Net impaired loans after general allowance	**$ (496)**			$ 47		

CAPITAL

Table 24 Capital funding activity

Issues	Maturities/ Redemptions/Repurchases	
Tier 1 Capital	Preferred shares	
None	January 28, 2004	$250,000,000 Series 11 Non-cumulative Preferred Shares
	Subordinated debentures	
	None	

Table 25 Risk-weighted assets

As at October 31 ($ billions)			2004		2003	
Conversion factor	Weighting factor		Gross	Risk-weighted	Gross	Risk-weighted
On-balance sheet						
—	0 - 20%	Cash resources	**$ 17.2**	**$ 2.4**	$ 20.6	$ 3.1
—	0 - 100%	Securities(1)	**58.8**	**7.6**	63.2	9.0
—	0 - 50%	Residential mortgages	**68.8**	**22.4**	61.5	19.4
—	0 - 100%	Loans and acceptances	**110.0**	**80.7**	117.0	85.2
—	0 - 100%	Other assets	**24.4**	**5.1**	23.6	5.0
		Total on-balance sheet	**279.2**	**118.2**	285.9	121.7
Off-balance sheet						
		Indirect credit instruments				
0%	—	One year and under credit commitments	**67.0**	**—**	76.2	—
20%	0 - 100%	Short-term trade letters of credit	**0.8**	**0.2**	0.7	0.1
50%	0 - 100%	Longer-term credit commitments	**37.1**	**15.7**	34.3	14.9
50%	0 - 100%	Performance guarantees	**5.3**	**2.6**	4.6	2.3
100%	0 - 100%	Standby letters of credit, letters of guarantee, securities lending and other commitments	**13.2**	**7.0**	16.6	8.9
			123.4	**25.5**	132.4	26.2
		Interest rate instruments				
0 - 1.5%	0 - 50%	Futures and forward rate agreements	**120.0**	**—**	173.5	—
0 - 1.5%	0 - 50%	Interest rate swaps	**472.3**	**1.8**	484.1	2.2
0 - 1.5%	0 - 50%	Interest rate options	**95.9**	**0.1**	105.4	0.2
			688.2	**1.9**	763.0	2.4
		Foreign exchange instruments				
1 - 7.5%	0 - 50%	Futures and foreign exchange contracts	**186.1**	**2.1**	189.8	2.0
1 - 7.5%	0 - 50%	Currency swaps	**52.6**	**1.6**	52.3	1.3
1 - 7.5%	0 - 50%	Currency options	**5.7**	**0.1**	6.6	0.1
			244.4	**3.8**	248.7	3.4
		Other derivative instruments				
6 - 10%	0 - 50%	Equity swaps and options	**23.3**	**0.5**	20.6	0.4
6 - 15%	0 - 50%	Credit derivatives	**18.8**	**0.3**	17.4	0.3
7 - 15%	0 - 50%	Other	**2.6**	**0.1**	2.9	0.1
			44.7	**0.9**	40.9	0.8
		Total off-balance sheet	**1,100.7**	**32.1**	1,185.0	32.8
		Total gross and risk-weighted assets	**1,379.9**	**150.3**	1,470.9	154.5
		Impact of master netting		**(2.7)**		(3.1)
		Market risk — risk assets equivalent (1)		**2.9**		3.1
		Total	**$1,379.9**	**$ 150.5**	$1,470.9	$ 154.5

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

Table 26 Components of net income as a percentage of average total assets [(1)]

Taxable equivalent basis For the fiscal years (%)	2004	2003	2002	2001	2000
Net interest income	**2.16%**	2.23%	2.34%	2.37%	2.26%
Provision for credit losses	**(0.14)**	(0.31)	(0.69)	(0.53)	(0.32)
Other income	**1.52**	1.39	1.33	1.50	1.54
Net interest and other income	**3.54**	3.31	2.98	3.34	3.48
Non-interest expenses	**(2.06)**	(1.99)	(2.01)	(2.08)	(2.16)
Restructuring provision and goodwill writeoff	**—**	—	—	—	0.01
Net income before the undernoted:	**1.48**	1.32	0.97	1.26	1.33
Provision for income taxes and non-controlling interest	**(0.45)**	(0.46)	(0.36)	(0.46)	(0.52)
Net income	**1.03%**	0.86%	0.61%	0.80%	0.81%
Average total assets ($ billions)	**$284.0**	$288.5	$296.9	$271.8	$238.7

(1) Income from tax-exempt securities has been expressed on an equivalent before-tax basis. The provision for income taxes has been adjusted by a corresponding amount: 2004 — $274 million; 2003 — $278 million; 2002 — $268 million; 2001 — $230 million; 2000 — $194 million.

Table 27 General allowance and unrealized gains (losses) on investment securities

For the fiscal years ($ millions)	2004	2003	2002	2001	2000
General allowance	**$1,375**	$1,475	$1,475	$1,475	$1,300
Unrealized gains (losses) on investment securities					
Common and preferred shares	**$ 502**	$ 164	$ (131)	$ 35	$ 466
Emerging market bonds	**507**	512	219	298	388
Other fixed income	**39**	27	(113)	204	9
	$1,048	$ 703	$ (25)	$ 537	$ 863

Table 28 Assets under administration and management

As at September 30 ($ billions)	2004	2003	2002	2001	2000
Assets under administration					
Personal					
Retail brokerage	**$ 54.2**	$ 47.4	$ 41.0	$ 40.1	$ 44.9
Investment management and trust	**53.4**	56.6	57.1	51.2	47.3
	107.6	104.0	98.1	91.3	92.2
Mutual funds	**15.8**	14.2	14.4	14.1	10.5
Institutional	**33.4**	43.8	31.9	47.7	54.0
Total	**$156.8**	$162.0	$144.4	$153.1	$156.7
Assets under management					
Personal	**$ 7.5**	$ 7.0	$ 7.8	$ 8.2	$ 8.7
Mutual funds	**11.8**	11.6	12.2	12.0	8.1
Institutional	**1.9**	1.4	1.5	1.7	2.0
Total	**$ 21.2**	$ 20.0	$ 21.5	$ 21.9	$ 18.8

Table 29 Fees paid to the shareholders' auditors

For the fiscal years ($ millions)	2004	2003
Audit services	**$13.1**	$12.5
Audit-related services	**0.5**	0.5
Tax services outside of the audit scope	**3.2**	2.2
Other non-audit services	**3.2**	1.2
	$20.0	$16.4

Table 30 Selected quarterly information

	2004				2003			
As at and for the quarter ended	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Operating results ($ millions)								
Net interest income (TEB[1])	**1,499**	**1,534**	**1,558**	**1,548**	1,584	1,630	1,603	1,611
Total revenue (TEB[1])	**2,495**	**2,569**	**2,807**	**2,588**	2,591	2,639	2,568	2,645
Provision for credit losses	**40**	**50**	**130**	**170**	120	200	248	325
Non-interest expenses	**1,461**	**1,472**	**1,523**	**1,406**	1,494	1,453	1,429	1,355
Provision for income taxes (TEB[1])	**239**	**264**	**313**	**251**	250	291	225	296
Net income	**708**	**733**	**786**	**704**	660	626	596	595
Net income available to common shareholders	**701**	**727**	**780**	**684**	650	616	572	568
Operating performance								
Basic earnings per share[2] ($)	**0.70**	**0.72**	**0.77**	**0.68**	0.64	0.61	0.57	0.56
Diluted earnings per share[2] ($)	**0.69**	**0.71**	**0.75**	**0.67**	0.63	0.60	0.56	0.55
Return on equity (%)	**18.8**	**19.4**	**21.8**	**19.4**	18.6	17.7	17.2	16.6
Productivity ratio (%)(TEB[1])	**58.6**	**57.3**	**54.3**	**54.3**	57.7	55.1	55.6	51.2
Net interest margin on total average assets (%)(TEB[1])	**2.12**	**2.15**	**2.21**	**2.18**	2.22	2.28	2.25	2.17
Balance sheet information ($ billions)								
Cash and securities	**75.9**	**85.0**	**81.3**	**81.6**	83.8	78.9	77.3	74.5
Loans and acceptances	**178.9**	**182.2**	**179.9**	**175.7**	178.5	179.6	189.2	188.0
Total assets	**279.2**	**286.9**	**283.6**	**281.5**	285.9	282.2	291.7	289.6
Deposits	**195.2**	**201.1**	**197.6**	**191.8**	192.7	190.3	189.2	192.7
Preferred shares	**0.6**	**0.6**	**0.6**	**0.6**	0.8	0.8	0.8	1.1
Common shareholders' equity	**14.7**	**15.0**	**14.9**	**14.2**	13.8	13.9	13.6	13.7
Assets under administration	**156.8**	**162.1**	**162.3**	**167.7**	162.0	161.2	154.9	154.9
Assets under management	**21.2**	**21.2**	**20.9**	**20.5**	20.0	20.2	19.6	20.7
Capital measures (%)								
Tier 1 capital ratio	**11.5**	**11.3**	**11.2**	**10.9**	10.8	10.6	10.3	10.0
Total capital ratio	**13.9**	**13.7**	**13.6**	**13.4**	13.2	13.1	12.7	12.8
Common equity to risk-weighted assets	**9.9**	**9.8**	**9.7**	**9.5**	9.2	9.1	8.7	8.8
Tangible common equity to risk-weighted assets[3]	**9.7**	**9.5**	**9.4**	**9.2**	8.9	8.7	8.4	8.5
Risk-weighted assets ($ billions)	**150.5**	**155.5**	**155.7**	**153.5**	154.5	157.2	159.1	163.2
Credit quality								
Net impaired loans after specific allowance[4] ($ millions)	**879**	**1,198**	**1,371**	**1,487**	1,522	1,792	1,853	2,034
General allowance for credit losses ($ millions)	**1,375**	**1,425**	**1,475**	**1,475**	1,475	1,475	1,475	1,475
Net impaired loans as a % of loans and acceptances[4]	**0.49**	**0.66**	**0.76**	**0.85**	0.85	1.00	0.98	1.08
Specific provision for credit losses as a % of average loans and acceptances	**0.20**	**0.22**	**0.30**	**0.38**	0.27	0.43	0.53	0.67
Common share information								
Share price[2] ($)								
High	**40.00**	**36.88**	**37.45**	**34.24**	33.70	32.19	27.90	27.38
Low	**35.28**	**32.90**	**33.38**	**31.08**	29.19	27.52	24.84	22.28
Close	**39.60**	**36.60**	**35.15**	**33.75**	32.74	30.24	27.90	25.35
Shares outstanding[2] (millions)								
Average – Basic	**1,008**	**1,008**	**1,011**	**1,011**	1,012	1,010	1,007	1,009
Average – Diluted	**1,024**	**1,024**	**1,028**	**1,027**	1,028	1,027	1,023	1,025
End of period	**1,009**	**1,008**	**1,009**	**1,011**	1,011	1,012	1,008	1,007
Dividends per share[2] ($)	**0.30**	**0.30**	**0.25**	**0.25**	0.22	0.22	0.20	0.20
Dividend yield (%)	**3.2**	**3.4**	**2.8**	**3.1**	2.8	2.9	3.0	3.2
Dividend payout ratio[5] (%)	**43.1**	**41.6**	**32.4**	**37.0**	34.2	36.1	35.2	35.6
Market capitalization ($ billions)	**39.9**	**36.9**	**35.5**	**34.1**	33.1	30.6	28.1	25.5
Book value per share[2] ($)	**14.56**	**14.86**	**14.73**	**14.05**	13.67	13.76	13.50	13.56
Market value to book value multiple	**2.7**	**2.5**	**2.4**	**2.4**	2.4	2.2	2.1	1.9
Price to earnings multiple (trailing 4 quarters)	**13.8**	**13.0**	**13.0**	**13.5**	13.8	13.2	12.6	11.4

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 33.

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

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

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

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

Eleven-year Statistical Review
Consolidated Balance Sheet

As at October 31 ($ millions)	2004	2003	2002	2001
Assets				
Cash resources	**$ 17,155**	$ 20,581	$ 20,273	$ 20,160
Securities				
Investment	**15,717**	20,293	21,602	25,450
Trading	**43,056**	42,899	34,592	27,834
	58,773	63,192	56,194	53,284
Loans				
Residential mortgages	**69,018**	61,646	56,295	52,592
Personal and credit cards	**30,182**	26,277	23,363	20,116
Business and governments	**57,384**	64,313	77,181	79,460
Securities purchased under resale agreements	**17,880**	22,648	32,262	27,500
	174,464	174,884	189,101	179,668
Allowance for credit losses	**2,696**	3,217	3,430	4,236
	171,768	171,667	185,671	175,432
Other				
Customers' liability under acceptances	**7,086**	6,811	8,399	9,301
Trading derivatives' market valuation	**14,198**	15,308	15,821	15,886
Land, buildings and equipment	**1,872**	1,944	2,101	2,325
Other assets	**8,360**	6,389	7,921	8,037
	31,516	30,452	34,242	35,549
	$279,212	$285,892	$296,380	$284,425
Liabilities and shareholders' equity				
Deposits				
Personal	**$ 79,020**	$ 76,431	$ 75,558	$ 75,573
Business and governments	**94,125**	93,541	93,830	80,810
Banks	**22,051**	22,700	26,230	29,812
	195,196	192,672	195,618	186,195
Other				
Acceptances	**7,086**	6,811	8,399	9,301
Obligations related to securities sold under repurchase agreements	**19,428**	28,686	31,881	30,627
Obligations related to securities sold short	**7,585**	9,219	8,737	6,442
Trading derivatives' market valuation	**14,054**	14,758	15,500	15,453
Other liabilities	**15,733**	14,145	15,678	15,369
Non-controlling interest in subsidiaries	**2,280**	2,326	1,912	1,086
	66,166	75,945	82,107	78,278
Subordinated debentures	**2,615**	2,661	3,878	5,344
Shareholders' equity				
Capital stock				
Preferred shares	**550**	800	1,275	1,775
Common shares and contributed surplus	**3,229**	3,141	3,002	2,920
Retained earnings and cumulative foreign currency translation	**11,456**	10,673	10,500	9,913
	15,235	14,614	14,777	14,608
	$279,212	$285,892	$296,380	$284,425

[Additional columns below]

[Continued from above table, first column(s) repeated]

(1) Pre-1996 comparative amounts have not been restated to reflect the reporting of trading derivatives' market valuation on a gross basis, as they were not reasonably determinable.

As at October 31 ($ millions)	2000	1999	1998	1997	1996	1995[1]	1994
Assets							
Cash resources	$ 18,744	$ 17,115	$ 22,900	$ 18,174	$ 14,737	$ 16,728	$ 11,388
Securities							
Investment	19,565	20,030	17,392	17,091	15,835	13,820	17,093
Trading	21,821	13,939	12,108	10,908	10,070	8,154	8,473
	41,386	33,969	29,500	27,999	25,905	21,974	25,566
Loans							
Residential mortgages	50,037	47,916	45,884	41,727	30,683	28,620	26,857
Personal and credit cards	17,988	16,748	18,801	17,764	16,801	15,343	13,421
Business and governments	78,172	69,873	76,542	59,353	50,408	47,741	44,438
Securities purchased under resale agreements	23,559	13,921	11,189	8,520	9,112	8,378	4,304
	169,756	148,458	152,416	127,364	107,004	100,082	89,020
Allowance for credit losses	2,853	2,599	1,934	1,625	1,568	2,295	2,241
	166,903	145,859	150,482	125,739	105,436	97,787	86,779
Other							
Customers' liability under acceptances	8,807	9,163	8,888	7,575	5,945	5,563	4,796
Trading derivatives' market valuation	8,244	8,039	13,675	8,925	8,978	–	–
Land, buildings and equipment	1,631	1,681	1,759	1,716	1,523	1,485	1,200
Other assets	7,456	6,865	6,384	5,025	2,777	3,652	3,199
	26,138	25,748	30,706	23,241	19,223	10,700	9,195
	$253,171	$222,691	$233,588	$195,153	$165,301	$147,189	$132,928
Liabilities and shareholders' equity							
Deposits							
Personal	$ 68,972	$ 65,715	$ 62,656	$ 59,239	$ 47,768	$ 45,538	$ 42,431
Business and governments	76,980	64,070	70,779	56,928	44,981	41,747	35,660
Banks	27,948	26,833	32,925	22,808	25,145	24,060	21,664
	173,900	156,618	166,360	138,975	117,894	111,345	99,755
Other							
Acceptances	8,807	9,163	8,888	7,575	5,945	5,563	4,796
Obligations related to securities sold under repurchase agreements	23,792	16,781	14,603	11,559	7,894	7,354	5,798
Obligations related to securities sold short	4,297	2,833	3,121	3,739	6,509	5,416	5,989
Trading derivatives' market valuation	8,715	8,651	14,360	8,872	8,571	–	–
Other liabilities	14,586	11,667	9,787	9,731	7,387	6,809	7,158
Non-controlling interest in subsidiaries	729	198	173	137	101	133	175
	60,926	49,293	50,932	41,613	36,407	25,275	23,916
Subordinated debentures	5,370	5,374	5,482	5,167	3,251	3,249	3,016
Shareholders' equity							
Capital stock							
Preferred shares	1,775	1,775	1,775	1,468	1,325	1,575	1,100
Common shares and contributed surplus	2,765	2,678	2,625	2,567	2,161	1,994	1,839
Retained earnings and cumulative foreign currency translation	8,435	6,953	6,414	5,363	4,263	3,751	3,302
	12,975	11,406	10,814	9,398	7,749	7,320	6,241
	$253,171	$222,691	$233,588	$195,153	$165,301	$147,189	$132,928

Consolidated Statement of Income

For the year ended October 31 ($ millions)	2004	2003	2002	2001
Interest income				
Loans	**$ 9,074**	$ 9,945	$10,708	$13,049
Securities	**2,662**	2,859	3,087	3,062
Deposits with banks	**441**	442	573	872
	12,177	13,246	14,368	16,983
Interest expense				
Deposits	**4,790**	5,222	5,519	8,233
Subordinated debentures	**112**	139	203	303
Other	**1,410**	1,735	1,971	2,247
	6,312	7,096	7,693	10,783
Net interest income	**5,865**	6,150	6,675	6,200
Provision for credit losses	**390**	893	2,029	1,425
Net interest income after provision for credit losses	**5,475**	5,257	4,646	4,775
Other income	**4,320**	4,015	3,942	4,071
Net interest and other income	**9,795**	9,272	8,588	8,846
Non-interest expenses				
Salaries and employee benefits	**3,452**	3,361	3,344	3,220
Other[2]	**2,410**	2,370	2,630	2,442
Restructuring provisions following acquisitions	**–**	–	–	–
	5,862	5,731	5,974	5,662
Income before the undernoted	**3,933**	3,541	2,614	3,184
Provision for income taxes	**793**	784	601	876
Non-controlling interest in net income of subsidiaries	**209**	280	216	139
Net income	**$ 2,931**	$ 2,477	$ 1,797	$ 2,169
Preferred dividends paid and other	**39**	71	105	108
Net income available to common shareholders	**$ 2,892**	$ 2,406	$ 1,692	$ 2,061
Average number of common shares outstanding (millions) [3]:				
Basic	**1,010**	1,010	1,009	1,001
Diluted	**1,026**	1,026	1,026	1,018
Earnings per common share (in dollars) [3]:				
Basic	**$ 2.87**	$ 2.38	$ 1.68	$ 2.06
Diluted	**$ 2.82**	$ 2.34	$ 1.65	$ 2.02
Dividends per common share (in dollars) [3]	**$ 1.10**	$ 0.84	$ 0.73	$ 0.62

[Additional columns below]

[Continued from above table, first column(s) repeated]

(1) These financial results were prepared in accordance with Canadian GAAP, including the accounting requirements of the Superintendent, other than recording the increase in the general provision for credit losses as a direct charge to retained earnings in the fourth quarter of 1999, which was in accordance with the accounting requirements specified by the Superintendent under the Bank Act. Had the one-time increase in the general provision of $550 before tax ($314 after-tax) been recorded as a charge to the Consolidated Statement of Income, these financial results would have been as follows: provision for credit losses $1,185, net income $1,237, basic earnings per share $1.14 and diluted earnings per share $1.13.

(2) Other non-interest expenses include (a) in 2003 and 2002, a loss on disposal of subsidiary operations of $31 and $237, respectively, (b) in 1997, a $26 write off of goodwill, and (c) in 1994, a $162 write off of goodwill.

(3) Amounts have been retroactively adjusted to reflect the one-for-one stock dividend paid April 28, 2004 and the two-for-one stock split on February 12, 1998.

For the year ended October 31 ($ millions)	2000	1999[1]	1998	1997	1996	1995	1994
Interest income							
Loans	$12,129	$10,654	$10,269	$ 8,082	$ 7,881	$ 8,007	$ 6,090
Securities	2,286	1,874	1,815	1,636	1,757	1,991	1,287
Deposits with banks	916	943	1,007	770	740	597	391
	15,331	13,471	13,091	10,488	10,378	10,595	7,768
Interest expense							
Deposits	8,192	7,284	7,303	5,714	5,969	6,166	4,149
Subordinated debentures	324	314	354	260	214	209	172
Other	1,616	1,201	1,057	797	841	1,046	487
	10,132	8,799	8,714	6,771	7,024	7,421	4,808
Net interest income	5,199	4,672	4,377	3,717	3,354	3,174	2,960
Provision for credit losses	765	635	595	35	380	560	567
Net interest income after provision for credit losses	4,434	4,037	3,782	3,682	2,974	2,614	2,393
Other income	3,665	3,183	2,858	2,683	2,008	1,498	1,606
Net interest and other income	8,099	7,220	6,640	6,365	4,982	4,112	3,999
Non-interest expenses							
Salaries and employee benefits	2,944	2,627	2,501	2,202	1,910	1,652	1,583
Other[2]	2,209	2,149	1,945	1,607	1,327	1,192	1,273
Restructuring provisions following acquisitions	(34)	(20)	–	250	(20)	–	175
	5,119	4,756	4,446	4,059	3,217	2,844	3,031
Income before the undernoted	2,980	2,464	2,194	2,306	1,765	1,268	968
Provision for income taxes	990	867	762	758	665	371	455
Non-controlling interest in net income of subsidiaries	64	46	38	34	31	21	31
Net income	$ 1,926	$ 1,551	$ 1,394	$ 1,514	$ 1,069	$ 876	$ 482
Preferred dividends paid and other	108	108	97	99	113	104	97
Net income available to common shareholders	$ 1,818	$ 1,443	$ 1,297	$ 1,415	$ 956	$ 772	$ 385
Average number of common shares outstanding (millions)[3]:							
Basic	991	986	982	958	937	914	875
Diluted	1,003	996	993	966	939	915	875
Earnings per common share (in dollars)[3]:							
Basic	$ 1.83	$ 1.46	$ 1.32	$ 1.48	$ 1.02	$ 0.84	$ 0.44
Diluted	$ 1.81	$ 1.45	$ 1.31	$ 1.46	$ 1.02	$ 0.84	$ 0.44
Dividends per common share (in dollars)[3]	$ 0.50	$ 0.44	$ 0.40	$ 0.37	$ 0.33	$ 0.31	$ 0.29

Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	2004	2003	2002	2001
Preferred shares				
Bank:				
Balance at beginning of year	**$ 550**	$ 1,025	$ 1,525	$ 1,525
Issued	**–**	–	–	–
Redeemed	**(250)**	(475)	(500)	–
Balance at end of year	**300**	550	1,025	1,525
Scotia Mortgage Investment Corporation	**250**	250	250	250
Total	**550**	800	1,275	1,775
Common shares and contributed surplus				
Balance of common shares at beginning of year	**3,140**	3,002	2,920	2,765
Issued	**117**	163	101	155
Purchased for cancellation	**(29)**	(25)	(19)	–
Balance of common shares at end of year	**3,228**	3,140	3,002	2,920
Contributed surplus: Fair value of stock options	**1**	1	–	–
Total	**3,229**	3,141	3,002	2,920
Retained earnings and cumulative foreign currency translation				
Balance at beginning of year	**10,673**	10,500	9,913	8,435
Adjustments	–	–	(76)[1]	(39)[2]
Net income	**2,931**	2,477	1,797	2,169
Dividends: Preferred	**(29)**	(52)	(105)	(108)
Common	**(1,110)**	(849)	(732)	(621)
Net unrealized foreign exchange translation gains/(losses)	**(709)**	(1,176)	(137)	79
Purchase of shares and premium on redemption	**(300)**	(220)	(154)	–
Other	**–**	(7)	(6)	(2)
Balance at end of year	**11,456**	10,673	10,500	9,913
Total shareholders' equity at end of year	**$ 15,235**	$ 14,614	$ 14,777	$ 14,608
Other Statistics[5]				
Operating performance				
Basic earnings per share ($)[6]	**2.87**	2.38	1.68	2.06
Diluted earnings per share ($)[6]	**2.82**	2.34	1.65	2.02
Return on equity (%)	**19.9**	17.6	13.0	17.3
Productivity ratio (%)(TEB)	**56.0**	54.9	54.9	53.9
Return on assets (%)	**1.03**	0.86	0.61	0.80
Net interest margin on total average assets (%)(TEB)	**2.16**	2.23	2.34	2.37
Capital measures				
Tier 1 capital ratio (%)	**11.5**	10.8	9.9	9.3
Total capital ratio (%)	**13.9**	13.2	12.7	13.0
Assets to capital ratio[7]	**13.8**	14.4	14.5	13.5
Common equity to risk-weighted assets (%)	**9.9**	9.2	8.6	8.1
Tangible common equity to risk-weighted assets (%)	**9.7**	8.9	8.3	7.8
Common share information				
Share price ($):[6]				
High	**40.00**	33.70	28.10	25.25
Low	**31.08**	22.28	21.01	18.65
Close	**39.60**	32.74	22.94	21.93
Number of shares outstanding (millions)[6]	**1,009**	1,011	1,008	1,008
Dividends per share ($)[6]	**1.10**	0.84	0.73	0.62
Dividend payout (%)[8]	**38.4**	35.3	43.2	30.1
Dividend yield (%)[9]	**3.1**	3.0	3.0	2.8
Price to earnings multiple[10]	**13.8**	13.8	13.7	10.6
Book value per common share ($)[6]	**14.56**	13.67	13.39	12.74
Other information				
Average total assets ($ millions)	**283,986**	288,513	296,852	271,843
Number of branches and offices	**1,871**	1,850	1,847	2,005
Number of employees[11]	**43,928**	43,986	44,633	46,804
Number of automated banking machines	4,219	3,918	3,693	3,761

[Additional columns below]

[Continued from above table, first column(s) repeated]

(1) Cumulative effect of adoption of new goodwill accounting standard.

(2) Cumulative effect of adoption of new corporate income taxes accounting standard.

(3) If the increase in the general provision had been charged to income (refer to footnote 1 on the previous page), these 1999 financial ratios would have been: return on equity 12.0%, return on assets 0.54%, basic earnings per share $1.14, diluted earnings per share $1.13, dividend payout 38.0% and price earnings multiple 14.3.

(4) In accordance with the guidelines issued by the Superintendent, the Bank adopted new impaired loans accounting principles established by the CICA.

(5) Pre-1996 comparative amounts have not been restated to reflect the reporting of trading derivatives' market valuation on a gross basis, as they were not reasonably determinable.

For the year ended October 31 ($ millions)	2000	1999	1998	1997	1996	1995	1994
Preferred shares							
Bank:							
Balance at beginning of year	$ 1,525	$ 1,525	$ 1,218	$ 1,325	$ 1,575	$ 1,100	$ 1,300
Issued	–	–	311	143	100	675	–
Redeemed	–	–	(4)	(250)	(350)	(200)	(200)
Balance at end of year	1,525	1,525	1,525	1,218	1,325	1,575	1,100
Scotia Mortgage Investment Corporation	250	250	250	250	–	–	–
Total	1,775	1,775	1,775	1,468	1,325	1,575	1,100
Common shares and contributed surplus							
Balance of common shares at beginning of year	2,678	2,625	2,567	2,161	1,994	1,839	1,429
Issued	87	53	58	406	167	155	410
Purchased for cancellation	–	–	–	–	–	–	–
Balance of common shares at end of year	2,765	2,678	2,625	2,567	2,161	1,994	1,839
Contributed surplus: Fair value of stock options	–	–	–	–	–	–	–
Total	2,765	2,678	2,625	2,567	2,161	1,994	1,839
Retained earnings and cumulative foreign currency translation							
Balance at beginning of year	6,953	6,414	5,363	4,263	3,751	3,302	3,175
Adjustments	–	(314)[3]	–	–	(116)[4]	–	–
Net income	1,926	1,551	1,394	1,514	1,069	876	482
Dividends: Preferred	(108)	(108)	(97)	(99)	(113)	(104)	(97)
Common	(496)	(429)	(393)	(355)	(305)	(283)	(253)
Net unrealized foreign exchange translation gains/(losses)	163	(160)	152	43	(19)	(15)	9
Purchase of shares and premium on redemption	–	–	–	–	–	–	–
Other	(3)	(1)	(5)	(3)	(4)	(25)	(14)
Balance at end of year	8,435	6,953	6,414	5,363	4,263	3,751	3,302
Total shareholders' equity at end of year	$ 12,975	$ 11,406	$ 10,814	$ 9,398	$ 7,749	$ 7,320	$ 6,241
Other Statistics[5]							
Operating performance							
Basic earnings per share ($)[6]	1.83	1.46[3]	1.32	1.48	1.02	0.84	0.44
Diluted earnings per share ($)[6]	1.81	1.45[3]	1.31	1.46	1.02	0.84	0.44
Return on equity (%)	17.6	15.3[3]	15.3	20.2	15.8	14.2	7.9
Productivity ratio (%)(TEB)	56.5	59.3	60.4	62.4	58.8	59.9	65.6
Return on assets (%)	0.81	0.68[3]	0.65	0.85	0.67	0.64	0.40
Net interest margin on total average assets (%)(TEB)	2.26	2.11	2.11	2.13	2.18	2.31	2.62
Capital measures							
Tier 1 capital ratio (%)	8.6	8.1	7.2	6.9	6.7	6.7	6.2
Total capital ratio (%)	12.2	11.9	10.6	10.4	8.9	9.6	9.6
Assets to capital ratio[7]	13.7	13.5	14.9	14.2	16.4	15.2	15.2
Common equity to risk-weighted assets (%)	7.3	6.9	6.0	5.8	5.5	5.4	5.4
Tangible common equity to risk-weighted assets (%)	7.0	6.7	5.7	5.6	5.5	5.4	5.4
Common share information							
Share price ($):[6]							
High	22.83	18.45	22.35	17.05	10.60	7.57	8.32
Low	13.03	14.30	11.40	10.28	7.10	6.07	5.79
Close	21.75	16.80	16.10	15.54	10.57	7.22	6.88
Number of shares outstanding (millions)[6]	996	989	984	980	950	929	905
Dividends per share ($)[6]	0.50	0.44	0.40	0.37	0.33	0.31	0.29
Dividend payout (%)[8]	27.3	29.7[3]	30.3	25.1	31.9	36.7	65.8
Dividend yield (%)[9]	2.8	2.7	2.4	2.7	3.7	4.6	4.1
Price to earnings multiple[10]	11.9	11.5[3]	12.2	10.5	10.4	8.5	15.6
Book value per common share ($)[6]	11.25	9.74	9.18	8.09	6.76	6.18	5.68

Other information							
Average total assets ($ millions)	238,664	229,037	213,973	179,176	158,803	137,988	120,619
Number of branches and offices	1,695	1,654	1,741	1,658	1,464	1,460	1,454
Number of employees[11]	40,946	40,894	42,046	38,648	34,592	33,717	33,272
Number of automated banking machines	2,669	2,322	2,244	2,030	1,526	1,429	1,381

(6) Amounts have been retroactively adjusted to reflect the one-for-one stock dividend paid April 28, 2004 and the two-for-one stock split on February 12, 1998.

(7) Based on guidelines issued by the Superintendent, the Bank's assets to capital ratio is calculated by dividing adjusted total assets by total regulatory capital.

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

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

(10) Based on the closing common share price.

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

2004 CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

Management's Responsibility for Financial Information

The management of The Bank of Nova Scotia (the Bank) is responsible for the integrity and fair presentation of the financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements also comply with the accounting requirements of the Bank Act.

The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgement of management. Financial information presented elsewhere in this Annual Report is consistent with that shown in the consolidated financial statements.

Management has always recognized the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements fairly presenting the financial condition of the Bank. In this regard, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized. The system is augmented by written policies and procedures, the careful selection and training of qualified staff, the establishment of organizational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and guidelines of business conduct throughout the Bank.

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 Superintendent of Financial Institutions Canada examines and enquires into the business and affairs of the Bank, to the extent deemed necessary, to satisfy himself that the provisions of the Bank Act, having reference to the safety of the interests of depositors, creditors and shareholders of the Bank, are being duly observed 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 and PricewaterhouseCoopers LLP, the independent auditors appointed by the shareholders of the Bank, have audited the consolidated financial statements of the Bank in accordance with Canadian generally accepted auditing standards and have expressed their opinion upon completion of such audit in the following report to the shareholders. In order to provide their opinion on these consolidated financial statements, the Shareholders' Auditors review the system of internal controls and conduct their work to the extent that they consider appropriate. The Shareholders' Auditors have full and free access to, and meet periodically with, the Audit and Conduct Review Committee to discuss their audit and findings as to the integrity of the Bank's accounting, financial reporting and related matters.

Rick Waugh
President and Chief Executive Officer

Sarabjit S. Marwah
Senior Executive Vice-President
and Chief Financial Officer

Toronto, November 30, 2004

Shareholders' Auditors' Report

To the Shareholders of The Bank of Nova Scotia

We have audited the Consolidated Balance Sheets of The Bank of Nova Scotia as at October 31, 2004 and 2003, and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended October 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2004 in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, November 30, 2004

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

As at October 31 ($ millions)	2004	2003
Assets		
Cash resources		
Cash and non-interest-bearing deposits with banks	**$ 1,921**	$ 1,373
Interest-bearing deposits with banks	**12,932**	17,111
Precious metals	**2,302**	2,097
	17,155	20,581
Securities (Note 3)		
Investment	**15,717**	20,293
Trading	**43,056**	42,899
	58,773	63,192
Loans (Note 4)		
Residential mortgages	**69,018**	61,646
Personal and credit cards	**30,182**	26,277
Business and governments	**57,384**	64,313
Securities purchased under resale agreements	**17,880**	22,648
	174,464	174,884
Allowance for credit losses (Note 5 b))	**2,696**	3,217
	171,768	171,667
Other		
Customers' liability under acceptances	**7,086**	6,811
Trading derivatives' market valuation (Note 22 d))	**14,198**	15,308
Land, buildings and equipment (Note 6)	**1,872**	1,944
Goodwill (Note 7)	**261**	270
Other intangible assets (Note 7)	**240**	284
Other assets (Note 8)	**7,859**	5,835
	31,516	30,452
	$279,212	$285,892
Liabilities and shareholders' equity		
Deposits (Note 9)		
Personal	**$ 79,020**	$ 76,431
Business and governments	**94,125**	93,541
Banks	**22,051**	22,700
	195,196	192,672
Other		
Acceptances	**7,086**	6,811
Obligations related to securities sold under repurchase agreements	**19,428**	28,686
Obligations related to securities sold short	**7,585**	9,219
Trading derivatives' market valuation (Note 22 d))	**14,054**	14,758
Other liabilities (Note 10)	**15,733**	14,145
Non-controlling interest in subsidiaries (Note 11)	**2,280**	2,326
	66,166	75,945
Subordinated debentures (Note 12)	**2,615**	2,661
Shareholders' equity		
Capital stock (Note 13)		
Preferred shares	**550**	800
Common shares and contributed surplus	**3,229**	3,141
Retained earnings	**13,239**	11,747
Cumulative foreign currency translation	**(1,783)**	(1,074)
	15,235	14,614
	$279,212	$285,892

Arthur R.A. Scace
Chairman of the Board

Rick Waugh
President and Chief Executive Officer

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income

For the year ended October 31 ($ millions)	2004	2003	2002
Interest income			
Loans	**$ 9,074**	$ 9,945	$10,708
Securities	**2,662**	2,859	3,087
Deposits with banks	**441**	442	573
	12,177	13,246	14,368
Interest expense			
Deposits	**4,790**	5,222	5,519
Subordinated debentures	**112**	139	203
Other	**1,410**	1,735	1,971
	6,312	7,096	7,693
Net interest income	**5,865**	6,150	6,675
Provision for credit losses (Note 5 b) and Note 23)	**390**	893	2,029
Net interest income after provision for credit losses	**5,475**	5,257	4,646
Other income			
Card revenues	**231**	204	280
Deposit and payment services	**646**	593	556
Mutual funds	**171**	161	174
Investment management, brokerage and trust services	**504**	455	473
Credit fees	**583**	684	671
Trading revenues	**476**	501	439
Investment banking	**648**	673	592
Net gain on investment securities (Note 3)	**477**	159	179
Securitization revenues	**111**	140	162
Other	**473**	445	416
	4,320	4,015	3,942
Net interest and other income	**9,795**	9,272	8,588
Non-interest expenses			
Salaries and employee benefits	**3,452**	3,361	3,344
Premises and technology	**1,139**	1,156	1,183
Communications	**248**	251	281
Advertising and business development	**210**	199	208
Professional	**163**	141	136
Business and capital taxes	**142**	144	168
Other	**508**	448	417
Loss on disposal of subsidiary operations (Note 23)	**—**	31	237
	5,862	5,731	5,974
Income before the undernoted	**3,933**	3,541	2,614
Provision for income taxes (Note 15)	**793**	784	601
Non-controlling interest in net income of subsidiaries	**209**	280	216
Net income	**$ 2,931**	$ 2,477	$ 1,797
Preferred dividends paid and other	**39**	71	105
Net income available to common shareholders	**$ 2,892**	$ 2,406	$ 1,692
Average number of common shares outstanding (millions) [1] (Note 17):			
Basic	**1,010**	1,010	1,009
Diluted	**1,026**	1,026	1,026
Earnings per common share (in dollars) [1] (Note 17):			
Basic	**$ 2.87**	$ 2.38	$ 1.68
Diluted	**$ 2.82**	$ 2.34	$ 1.65
Dividends per common share (in dollars) [1]	**$ 1.10**	$ 0.84	$ 0.73

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	2004	2003	2002
Preferred shares (Note 13)			
Bank:			
Balance at beginning of year	**$ 550**	$ 1,025	$ 1,525
Redeemed	**(250)**	(475)	(500)
Balance at end of year	**300**	550	1,025
Scotia Mortgage Investment Corporation	**250**	250	250
Total	**550**	800	1,275
Common shares and contributed surplus			
Common shares (Note 13):			
Balance at beginning of year	**3,140**	3,002	2,920
Issued	**117**	163	101
Purchased for cancellation	**(29)**	(25)	(19)
Balance at end of year	**3,228**	3,140	3,002
Contributed surplus: Fair value of stock options (Note 14)	**1**	1	—
Total	**3,229**	3,141	3,002
Retained earnings			
Balance at beginning of year	**11,747**	10,398	9,674
Cumulative effect of adoption of new accounting standard	**—**	—	(76)[1]
	11,747	10,398	9,598
Net income	**2,931**	2,477	1,797
Dividends: Preferred	**(29)**	(52)	(105)
Common	**(1,110)**	(849)	(732)
Purchase of shares and premium on redemption	**(300)**	(220)	(154)
Other	**—**	(7)	(6)
Balance at end of year	**13,239**	11,747	10,398
Cumulative foreign currency translation			
Balance at beginning of year	**(1,074)**	102	239
Net unrealized foreign exchange translation gains/(losses) [2]	**(709)**	(1,176)	(137)[3]
Balance at end of year	**(1,783)**	(1,074)	102
Total shareholders' equity at end of year	**$15,235**	$14,614	$14,777

(1) Refer to Note 7.

(2) Comprises unrealized foreign exchange translation gains/(losses) on net investments in self-sustaining foreign operations of $(1,085) (2003 — $(2,185); 2002 — $(128)), gains/(losses) from related foreign exchange hedging activities of $376 (2003 — $1,009; 2002 — $(31)), reversal of prior years' foreign exchange losses which were recognized in the Consolidated Statement of Income of nil (2003 — nil; 2002 — $12) and other of nil (2003 — nil; 2002 — $10).

(3) Includes unrealized foreign exchange gains of $107 arising in fiscal 2002 from the translation of the net investment position in Scotiabank Quilmes, which were recorded in cumulative foreign currency translation. On disposal of Scotiabank Quilmes' operations (refer to Note 23), the lifetime foreign exchange gains of $95 were transferred to the Consolidated Statement of Income.

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

Sources and (uses) of cash flows For the year ended October 31 ($ millions)	2004	2003	2002
Cash flows from operating activities			
Net income	**$ 2,931**	$ 2,477	$ 1,797
Adjustments to net income to determine cash flows:			
Depreciation and amortization	**216**	237	271
Provision for credit losses	**390**	893	2,029
Future income taxes	**(87)**	(108)	104
Net gain on investment securities	**(477)**	(159)	(179)
Loss on disposal of subsidiary operations (Note 23)	**—**	—	237
Net accrued interest receivable and payable	**(103)**	406	(147)
Trading securities	**(1,514)**	(10,218)	(7,402)
Trading derivatives' market valuation, net	**350**	(375)	105
Other, net	**(728)**	(263)	136
	978	(7,110)	(3,049)
Cash flows from financing activities			
Deposits	**8,106**	10,941	14,846
Obligations related to securities sold under repurchase agreements	**(8,011)**	722	2,671
Obligations related to securities sold short	**(1,528)**	653	2,314
Subordinated debenture redemptions/repayments	**—**	(1,059)	(1,421)
Capital stock issued	**114**	163	101
Capital stock redeemed/purchased for cancellation	**(579)**	(720)	(673)
Cash dividends paid	**(1,139)**	(901)	(837)
Other, net	**(230)**	(415)	1,199
	(3,267)	9,384	18,200
Cash flows from investing activities			
Interest-bearing deposits with banks	**3,483**	(2,061)	(117)
Loans, excluding securitizations	**(7,998)**	(903)	(20,244)
Loan securitizations	**3,514**	2,443	2,241
Investment securities:			
Purchases	**(24,471)**	(26,566)	(29,434)
Maturities	**14,742**	10,685	10,665
Sales	**14,384**	15,168	21,302
Land, buildings and equipment, net of disposals	**(228)**	(135)	(38)
Other, net[1]	**(59)**	(449)	198
	3,367	(1,818)	(15,427)
Effect of exchange rate changes on cash and cash equivalents	**(54)**	(148)	(96)
Net change in cash and cash equivalents [2]	**1,024**	308	(372)
Cash and cash equivalents at beginning of year	**897**	589	961
Cash and cash equivalents at end of year	**$ 1,921**	$ 897	$ 589
Represented by:			
Cash and non-interest-bearing deposits with banks	**$ 1,921**	$ 1,373	$ 1,664
Cheques and other items in transit, net liability [2]	**—**	(476)	(1,075)
Cash and cash equivalents at end of year	**$ 1,921**	$ 897	$ 589
Cash disbursements made for:			
Interest	**$ 6,417**	$ 6,971	$ 8,332
Income taxes	**$ 758**	$ 421	$ 817

(1) Includes: investments in subsidiaries of $59 (2003 — $487; 2002 — $61), less cash and cash equivalents at the date of acquisition of nil (2003 — $38; 2002 — $15); elimination of the net liability for cash and cash equivalents on disposal of subsidiary operations of nil (2003 — nil; 2002 — $106); and net proceeds from dispositions of business units of nil (2003 — nil; 2002 — $138).

(2) In the fourth quarter of 2004, the Bank prospectively changed the balance sheet presentation of certain types of cheques and other items in transit. These items are recorded gross in different asset and liability categories, whereas previously these items were recorded net in cheques and other items in transit in other liabilities in the Consolidated Balance Sheet. This change in balance sheet presentation also resulted in certain types of cheques and other items in transit no longer being classified as part of cash and cash equivalents and had the effect of increasing the 2004 net change in cash and cash equivalents by $519. These changes resulted from a new Canadian Institute of Chartered Accountants' standard for financial reporting, which eliminated industry practice as a source of generally accepted accounting principles.

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

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of The Bank of Nova Scotia have been prepared in accordance with Section 308 of the Bank Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting policies conform, in all material respects, to Canadian GAAP. In addition, Note 26 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 of estimation 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, and other-than-temporary impairment of investment securities. Therefore, actual results could differ from these and other estimates.

Certain comparative amounts have been reclassified to conform with current year presentation. Where new accounting policies have been adopted during the year, the effects of these changes have been discussed in the respective notes.

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 in associated corporations where the Bank has significant influence, which is normally evidenced by direct or indirect ownership of between 20% and 50% of the voting shares, are accounted for using the equity method and are included in investment securities in the Consolidated Balance Sheet. The Bank's share of earnings of such corporations is included in interest income — securities in the Consolidated Statement of Income.

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 branches, subsidiaries and associated corporations, together with any gains or losses arising from hedges of those net investment positions, are credited or charged to cumulative foreign currency translation in the Consolidated Balance Sheet, except as noted below. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded unrealized gains or losses thereon are transferred from cumulative foreign currency translation in the Consolidated Balance Sheet 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.

Precious metals

Precious metals are carried at market value and are included in cash resources in the Consolidated Balance Sheet. The liability arising from outstanding certificates is also carried at market value and included in other liabilities in the Consolidated Balance Sheet.

Securities

Securities are held in either the investment or trading portfolio. Investment securities comprise debt and equity securities held for liquidity and longer-term investment. Equity securities in which the Bank's holdings of voting shares are less than 20% are carried at cost, except where significant influence is demonstrated. Debt securities held in the investment account are carried at amortized cost with premiums and discounts being amortized to interest income — securities over the period to maturity. When there has been a decline in value of debt or equity securities that is other than temporary, the carrying value of the securities is appropriately reduced. Such reductions, if any, together with gains and losses on disposals, which are determined on an average cost basis, are included in other income — net gain on investment securities in the Consolidated Statement of Income.

Trading securities are intended to be held for a short period of time and are carried at market value. Gains and losses on disposal and adjustments to market value are included in other income — trading revenues in the Consolidated Statement of Income. Where securities are used to manage the volatility of stock-based compensation, gains and losses on disposal and adjustments to market value are included in salaries and employee benefits expense in the Consolidated Statement of Income.

Loans

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in other assets in the Consolidated Balance Sheet.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no

longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such, unless the loan is fully secured, the collection of the debt is in process, and the collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status within 180 days from the date a payment has become contractually in arrears. Finally, a loan that is contractually 180 days in arrears is classified as impaired in all situations, except when it is guaranteed or insured by the Canadian government, the provinces or a Canadian government agency; such loans are classified as impaired if the loan is contractually in arrears for 365 days. Any credit card loan that has a payment that is contractually 180 days in arrears is written off.

When a loan is classified as impaired, recognition of interest ceases. Interest received on impaired loans is credited to the carrying value of the loan.

Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Foreclosed assets received after April 30, 2003 meeting specified criteria are considered to be held for sale and recorded in other assets in the Consolidated Balance Sheet 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. Prior to May 1, 2003, foreclosed assets were included in impaired loans and presumed to be held for sale.

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 over the remaining period of the original mortgage. Loan syndication fees are included in credit fees in other income when the syndication is completed.

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 treated as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis.

Obligations related to securities sold short

The Bank's obligation to deliver securities sold that were not owned at the time of sale is recorded at fair value. Realized and unrealized gains and losses are recorded in other income — trading revenues in the Consolidated Statement of Income. Interest expense accruing on debt securities sold short is recorded in interest expense in the Consolidated Statement of Income.

Allowance for credit losses

The Bank maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all incurred credit-related losses in its portfolio of the following on-and off-balance sheet items: deposits with banks, securities purchased under resale agreements, loans, acceptances and other indirect credit commitments, such as letters of credit and guarantees. The allowance for credit losses consists of specific allowances and a general allowance, each of which is reviewed on a regular basis. The allowance for credit losses against on-balance sheet items is included 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. 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, certain personal loans and certain international residential mortgages, 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, certain personal loans and certain international residential mortgages are calculated using a formula method taking into account recent loss experience.

General allowance

The general allowance is established against the loan portfolio in respect of the Bank's core business lines where prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis.

The general allowance for business and government loans is underpinned by a risk rating process in which internal risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. With the internal risk ratings as the foundation, the allowance is initially calculated through the application of migration and default statistics by risk rating, loss severity in the event of default, and exposure at default patterns within each of the business line portfolios. Based upon recent observable data, senior management forms a judgement whether adjustments are necessary to the initially calculated (quantitative) allowance and the amount of any such adjustments. In making this judgement, management considers observable factors such as economic trends and business conditions, portfolio concentrations, and trends in volumes and severity of delinquencies.

For personal loan, credit card and mortgage portfolios, expected losses are estimated through analysis of historical loss migration and write-off trends.

The level of the general allowance is re-assessed quarterly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends in probability of loss, severity of loss and exposure at default factors; and management's current assessment of factors that may have affected the condition of the portfolio.

While the total general allowance is established through a step-by-step process that considers risk arising from specific segments of the portfolio, the resulting total general allowance is available to absorb all incurred losses in the loan portfolio.

Change in accounting policy:

Prior to fiscal 2004, the Bank maintained a country risk allowance. Effective November 1, 2003, the country risk allowance related to investment securities ($363 million) is no longer disclosed as part of the allowance for credit losses [refer to Note 5b)], but continues to be deducted from investment securities. The balance of the country risk allowance ($23 million) was related to impaired loans, and was reclassified to the specific allowance. This change in presentation was made following the Canadian Institute of Chartered Accountants' (CICA) elimination of industry

practice as a source of GAAP.

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 investment securities in the Consolidated Balance Sheet. Such retained interests are tested regularly for other-than-temporary impairment. When there has been an adverse change in the expected cash flows and the fair value of such retained interests is less than the carrying value, the retained interest's carrying value is reduced to that fair value by a charge to securitization revenues 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 — securitization revenues 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.

On November 1, 2002, the Bank established a new accounting policy for the sale of performing loans (other than by way of securitization), which is one of its credit risk management strategies. As such, 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.

Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Consolidated Balance Sheet. The Bank has equal and offsetting 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 plus one renewal option period.

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

Change in accounting policy:

Effective November 1, 2003, qualifying costs incurred for computer software are capitalized and depreciated on a prospective basis. This change was made following the CICA's elimination of industry practice as a source of GAAP. Prior to this date, these costs were expensed as incurred. The adoption of this accounting policy did not have a material impact on the Bank's results of operations for fiscal 2004.

Goodwill and other intangible assets

Effective November 1, 2001, the Bank retroactively adopted a new CICA accounting standard for goodwill and other intangible assets without restatement of prior periods.

Goodwill is the excess of the purchase price paid for the acquisition of a subsidiary over the fair value of the net assets acquired.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are subject to impairment tests on at least an annual basis. Goodwill is allocated to reporting units and any potential goodwill impairment is identified by comparing the carrying value of a reporting unit with its fair value. If any potential impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities.

Intangible assets, other than goodwill, which do not have indefinite useful lives are amortized on a straight-line basis over their useful lives not exceeding 20 years. These intangible assets are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable. The amortization of intangible assets is recorded in other non-interest expenses in the Consolidated Statement of Income.

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 of the tax rate change.

Future tax assets and liabilities are included in other assets and other liabilities in the Consolidated Balance Sheet.

Derivative instruments

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. Most derivative instruments can be characterized as interest rate contracts, foreign exchange and gold contracts, commodity contracts, equity contracts or credit contracts. Derivative instruments are either exchange-traded contracts or negotiated over-the-counter contracts. Exchange-traded derivatives include futures and option contracts. Negotiated over-the-counter derivatives include swaps, forwards and options.

The Bank enters into these derivative instruments to accommodate the risk management needs of its customers, for proprietary trading and for asset/liability management purposes.

Derivative instruments designated as “trading” include derivatives entered into with customers to accommodate their risk management needs and derivatives transacted to generate trading income from the Bank’s proprietary trading positions. Trading derivatives are carried at their fair values [refer to Note 22d)]. In determining the fair value of trading derivatives, a deferral is made to cover credit risk and ongoing direct costs over the life of the instruments. The gains and losses resulting from changes in fair values are included in other income — trading revenues in the Consolidated Statement of Income. Unrealized gains and unrealized losses on trading derivatives are reported separately in the Consolidated Balance Sheet as trading derivatives’ market valuation.

Derivative instruments designated as “asset/liability management” (non-trading) are those used to manage the Bank’s interest rate, foreign currency and other exposures. These include instruments that meet specified criteria to be designated as hedges for accounting purposes. Commencing in 2004, the criteria to designate hedges for accounting purposes are more stringent and formalized (see Change in accounting policy below).

Income and expenses on derivative instruments designated and qualifying as hedges are recognized in the Consolidated Statement of Income in the same period as the related hedged item. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value. Asset/liability management derivatives that do not qualify for hedge accounting are carried at fair value on

the Consolidated Balance Sheet, and subsequent changes in their fair value are recorded in the Consolidated Statement of Income as follows: interest rate-related contracts in net interest income; options used in managing investment securities in net gain on investment securities; and other derivative contracts in other income — other. Accrued income and expenses, and deferred gains and losses are included in other assets and other liabilities, as appropriate, in the Consolidated Balance Sheet.

Where the Bank manages its exposures using written credit default swaps, these derivatives are carried at fair value with changes in their fair value included in other income — other, in the Consolidated Statement of Income. Where derivative instruments are used to manage the volatility of stock-based compensation, these derivatives are carried at fair value with changes in their fair value included in salaries and employee benefits expense, in the Consolidated Statement of Income.

Change in accounting policy:

Effective November 1, 2003, the Bank adopted a new accounting guideline for hedging relationships, issued by the CICA. This guideline establishes certain qualifying conditions for the use of hedge accounting, which are more stringent and formalized than prior standards. The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Bank reassessed its hedging relationships as at November 1, 2003, which on transition resulted in an associated unrealized net loss of $44 million from asset/liability management derivatives that did not qualify for hedge accounting under the new criteria. This amount was deferred in other assets in the Consolidated Balance Sheet, and is being recognized in earnings as the original hedged items affect net income. The adoption of this accounting guideline did not have a material impact on the Bank's results of operations for fiscal 2004.

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 plans, these periods range from 11 to 22 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 plans, these periods range from 11 years to 22 years. 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 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.

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 14.

In December 2001, the CICA issued a new accounting standard for stock-based compensation and other stock-based payments. The new standard required the use of a fair-value-based method to account for certain stock-based compensation arrangements, and encouraged, but did not require, fair value accounting for employee stock options. The Bank adopted this new standard effective November 1, 2002, on a prospective basis for all of its stock-based compensation plans, including employee stock options. The transition to this standard did not have an impact on the consolidated financial statements as at the date of adoption.

Furthermore, in November 2003, the CICA amended the standard on stock-based compensation and stock-based payments to require employee stock options to be accounted for using a fair-value-based method. This change did not impact the Bank's current accounting for stock-based compensation or other stock-based payments.

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.

Commencing November 1, 2002, new stock option grants to employees have Tandem Stock Appreciation Rights (Tandem SARs), which provide the employee the choice to either exercise the stock option for shares, or to exercise the Tandem SAR and thereby receive the intrinsic value of the stock option in cash. Tandem SARs were also retroactively attached to the fiscal 2002 employee stock option grants. Options with

Tandem SARs are accounted for in the same manner as the Bank's other stock-based compensation plans as described below. 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.

Effective November 1, 2002, new stock option grants to non-officer directors (which do not have Tandem SAR features) are expensed using a fair-value-based method (Black-Scholes pricing model) and recorded in other non-interest expenses with a corresponding credit to contributed surplus in the Consolidated Balance Sheet.

The Bank's other stock-based compensation plans (including stock options with Tandem SAR features) are awards that may call

for settlement in cash and therefore, are accounted for as a liability. Changes in the Bank's obligations under these stock-based compensation plans, which arise from fluctuations in the market price of the Bank's common shares underlying these compensation plans, are recorded in salaries and employee benefits expense in the Consolidated Statement of Income with a corresponding accrual in other liabilities in the Consolidated Balance Sheet.

2. Future accounting changes

The following summarizes the known and finalized accounting policy changes that are relevant to the Bank's Consolidated Financial Statements in 2005.

Consolidation of variable interest entities (VIEs)

In June 2003, the CICA issued a new accounting guideline which requires the consolidation of VIEs by the primary beneficiary. Revisions to this guideline were published by the CICA in August 2004 to harmonize with the U.S. VIE accounting standard.

A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. This guideline is effective for the Bank commencing November 1, 2004.

The following is a summary by VIE category of the presently estimated financial statement impact of this new guideline. Accounting standard setters continue to deliberate implementation issues associated with this guideline. As implementation issues are addressed and revisions to the accounting guidance are made, the estimated effects of this new guideline, as discussed below, may change.

Securitization vehicles

The Bank administers three multi-seller commercial paper conduit programs. The programs involve the purchase of assets by conduit vehicles from outside parties funded by the issuance of asset-backed commercial paper (totalling $7 billion as at October 31, 2004). The sellers continue to service the assets and absorb first losses for their portion of the program. The Bank has no rights to these assets, but manages for a fee the commercial paper selling program and, in some instances, is the counterparty to derivatives contracts with these conduits and provides them a large portion of the backstop liquidity and partial credit enhancement facilities. As a result, under the new accounting guideline, the Bank is considered the primary beneficiary for these programs and will consolidate them as of November 1, 2004. The Bank continues to assess restructuring alternatives that may require these programs to be deconsolidated in the future.

The Bank has historically securitized portions of its personal loan and mortgage portfolios [as discussed in Note 4 b)]. The Bank will not consolidate the related securitization vehicles as they are exempt under the new guideline.

Scotiabank Trust Securities

The Bank has issued $2.0 billion in innovative Tier 1 capital using two trust structures: BNS Capital Trust and Scotiabank Capital Trust [refer to Note 11]. These structures are considered to be VIEs under the new accounting guideline. The Bank is the primary beneficiary for BNS Capital Trust, and will continue to consolidate this structure. However, the Bank is not the primary beneficiary for Scotiabank Capital Trust. As a result, the Bank will deconsolidate $1.5 billion of non-controlling interest in subsidiaries and record this amount on the Consolidated Balance Sheet as a deposit liability. This change is estimated to increase interest expense by $97 million for the year ending October 31, 2005, with the non-controlling interest in net income of subsidiaries decreasing by $97 million. The change will not impact net income available to common shareholders or earnings per share. As well, this change will not impact the Bank's capital ratios as the Superintendent has confirmed that existing securities issued under these trust structures will remain as eligible Tier 1 capital. The Bank continues to hold a significant interest in Scotiabank Capital Trust resulting in a maximum loss exposure to this entity of $77 million as at October 31, 2004.

Personal and corporate trust, and mutual fund structures

Certain personal and corporate trust, and mutual fund structures are VIEs under the new accounting guideline as there is a disproportionate relationship between the control of the assets and the rights to the investment returns and losses. The Bank has no exposure to loss on these structures as it does not guarantee the performance of the underlying assets, nor does it have the right to these assets except for the collection of fees and expense recoveries. Accordingly, the Bank is not the primary beneficiary of those personal and corporate trust, and mutual fund structures that are VIEs. As a result, the Bank will continue not to consolidate such structures.

Other

The Bank is involved with other entities or structures such as investment vehicles, collateralized debt obligation vehicles, and synthetic leases, which total $6 billion. The Bank is the primary beneficiary of certain of these structures. As a result, the Bank will consolidate these structures on November 1, 2004, and total assets and liabilities will increase by less than $1 billion.

Liabilities and equity

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

The Bank expects that the $250 million of preferred shares issued by Scotia Mortgage Investment Corporation and $500 million of Scotiabank Trust Securities issued by BNS Capital Trust will be reclassified from shareholders' equity and non-controlling interest in subsidiaries, respectively, to liabilities. This change is estimated to increase interest expense by $53 million for the year ending October 31, 2005, and decrease the provision for income taxes, non-controlling interest in net income of subsidiaries, and preferred dividends paid by an estimated

$7 million, $37 million, and $9 million, respectively. However, these changes will not impact net income available to common shareholders or earnings per share. As well, the Bank's capital ratios will not be impacted as the Superintendent has confirmed that these existing securities will remain eligible as Tier 1 capital.

The effect of applying this retroactively will result in the following restatements for 2004: increase in interest expense of $67 million (2003 — $100 million), decrease in provision for income taxes, non-controlling interest in net income of subsidiaries, and preferred dividends paid of $7 million, $37 million, and $23 million (2003 — $7 million, $37 million and $56 million), respectively.

CONSOLIDATED FINANCIAL STATEMENTS

3. Securities

As at October 31 ($ millions)	Remaining term to maturity					2004	2003
	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	Carrying value	Carrying value
Investment securities:							
Canadian federal government debt	$ 1,382	$ 209	$ 54	$ 13	$ —	**$ 1,658**	$ 2,662
Canadian provincial and municipal debt	202	114	68	—	—	**384**	474
U.S. treasury and other U.S. agencies	33	9	1,081	263	—	**1,386**	2,415
Other foreign governments	611	563	1,766	1,423	—	**4,363**	5,321
Bonds of designated emerging markets	—	17	86	605	—	**708**	716
Other debt	334	695	2,205	1,119	—	**4,353**	5,413
Preferred shares	—	—	—	—	760(1)	**760**	875
Common shares	—	—	—	—	1,964	**1,964**	2,265
Associated corporations	—	—	—	5	136(2)	**141**	152
Total	2,562	1,607	5,260	3,428	2,860	**15,717**	20,293
Trading securities(3):							
Canadian federal government debt	386	421	3,349	1,296	—	**5,452**	8,264
Canadian provincial and municipal debt	278	228	632	1,785	—	**2,923**	3,661
U.S. treasury and other U.S. agencies	—	—	386	325	—	**711**	2,057
Other foreign governments	1,061	1,399	2,742	24	—	**5,226**	4,988
Common shares	—	—	—	—	21,447	**21,447**	17,252
Other	1,730	1,267	2,598	1,180	522	**7,297**	6,677
Total	3,455	3,315	9,707	4,610	21,969	**43,056**	42,899
Total securities	$ 6,017	$ 4,922	$14,967	$8,038	$24,829	**$58,773**	$63,192
Total by currency (in Canadian equivalent):							
Canadian dollar	$ 3,126	$ 1,724	$ 4,863	$3,870	$20,617	**$34,200**	$36,661
U.S. dollar	725	931	5,769	3,254	3,849	**14,528**	15,632
Other currencies	2,166	2,267	4,335	914	363	**10,045**	10,899
Total securities	$ 6,017	$ 4,922	$14,967	$8,038	$24,829	**$58,773**	$63,192

(1) Although these securities have no stated term, most provide the Bank with various means to retract or dispose of these shares on earlier dates.

(2) Equity securities of associated corporations have no stated term, and as a result, have been classified in the “No specific maturity” column.

(3) Trading securities are carried at market value.

An analysis of unrealized gains and losses on investment securities is as follows:

As at October 31 ($ millions)	2004				2003			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Canadian federal government debt	**$ 1,658**	**$ —**	**$ —**	**$ 1,658**	$ 2,662	$ 29	$ —	$ 2,691
Canadian provincial and municipal debt	**384**	**1**	**—**	**385**	474	4	—	478
U.S. treasury and other U.S. agencies	**1,386**	**8**	**1**	**1,393**	2,415	5	3	2,417
Other foreign governments	**4,363**	**408**	**11**	**4,760**	5,321	468	38	5,751
Bonds of designated emerging markets	**708**	**360**	**2**	**1,066**	716	314	—	1,030
Other debt	**4,353**	**84**	**9**	**4,428**	5,413	126	24	5,515
Preferred shares	**760**	**31**	**11**	**780**	875	34	22	887
Common shares	**1,964**	**535**	**39**	**2,460**	2,265	232	244	2,253
Associated corporations	**141**	**—**	**—**	**141**	152	—	—	152
Total investment securities	**$15,717**	**$ 1,427**	**$ 73**	**$17,071**	$20,293	$ 1,212	$ 331	$21,174

The net unrealized gain on investment securities of $1,354 million (2003 — $881 million) decreases to a net unrealized gain of $1,048 million (2003 — $703 million) after the net fair value of derivative instruments and other hedge amounts associated with these securities is taken into account.

An analysis of net gain on investment securities is as follows:

For the year ended October 31 ($ millions)	2004	2003	2002
Realized gains	**$ 691**	$ 492	$ 1,031
Realized losses and impairment writedowns	**214**	333	852
Net gain on investment securities	**$ 477**	$ 159	$ 179

4. Loans

a) Loans outstanding

The Bank's loans net of unearned income and the allowance for credit losses in respect of loans are as follows [(1)]:

As at October 31 ($ millions)	2004	2003
Canada:		
Residential mortgages	**$ 64,347**	$ 57,410
Personal and credit cards	**26,296**	22,175
Business and governments	**22,294**	22,287
Securities purchased under resale agreements	**11,450**	9,693
	124,387	111,565
United States:		
Business, governments and other	**10,591**	14,814
Securities purchased under resale agreements	**3,174**	9,715
	13,765	24,529
Other international:		
Personal lending	**8,513**	8,292
Business and governments	**24,543**	27,258
Securities purchased under resale agreements	**3,256**	3,240
	36,312	38,790
	174,464	174,884
Less: allowance for credit losses	**2,696**	3,217
Total[(2)]	**$171,768**	$171,667

(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 $30,590 (2003 — $40,770) and loans denominated in other foreign currencies amount to $20,753 (2003 — $23,155).

b) Sales of loans through securitizations

The Bank securitizes residential mortgages through the creation of mortgage-backed securities. The net gain on sale of the mortgages resulting from these securitizations is recognized in securitization revenues in the Consolidated Statement of Income. The weighted average key assumptions used to measure fair value at the dates of securitization were a prepayment rate of 15.6% (2003 — 14.3%; 2002 — 13.3%), an excess spread of 1.2% (2003 — 1.4%; 2002 —1.4%), and a discount rate of 4.2% (2003 — 4.3%; 2002 — 4.9%).

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)	2004	2003	2002
Net cash proceeds	**$ 3,514**	$ 2,443	$ 2,241
Retained interest	**106**	89	80
Retained servicing liability	**(23)**	(16)	(15)
	3,597	2,516	2,306
Residential mortgages securitized	**3,537**	2,467	2,272
Net gain on sale	**$ 60**	$ 49	$ 34

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)	2004	2003
Carrying value of the retained interest ($)	**209**	150
Fair value of the retained interest ($)	**222**	150
Weighted average life (in years)	**4**	4
Prepayment rate (%)	**14.5**	13.8
Impact on fair value of a 10% adverse change ($)	**(7)**	(3)
Impact on fair value of a 20% adverse change ($)	**(14)**	(5)
Residual cash flow annual discount rate (%)	**3.0-4.5**	2.8-4.3
Impact on fair value of a 10% adverse change ($)	**(2)**	(1)
Impact on fair value of a 20% adverse change ($)	**(4)**	(2)
Excess spread (%)	**1.3**	1.4
Impact on fair value of a 10% adverse change ($)	**(20)**	(14)
Impact on fair value of a 20% adverse change ($)	**(40)**	(27)

The sensitivity measures above are hypothetical and should be used with caution. Other sensitivity estimates should not be extrapolated from those presented above since the relationship between the change in the assumption to the change in fair value is not linear. In addition, changes in a particular assumption and the effect on the fair value of the retained interests is calculated without changing any other assumption; however, the factors are not independent and the actual effects could be magnified or counteracted from the sensitivities presented.

Information on total securitized loan assets is summarized as follows:

	2004			2003			2002		
($ millions)	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31
Mortgages	**$ 7,523**	**$ —**	**$ —**	$ 5,248	$ —	$ —	$ 3,829	$ —	$ —
Personal and credit cards	**1,319**	**5**	**5**	2,417	12	16	3,376	20	23
Total	**$ 8,842**	**$ 5**	**$ 5**	$ 7,665	$ 12	$ 16	$ 7,205	$ 20	$ 23

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5. Impaired loans and allowance for credit losses

a) Impaired loans

As at October 31 ($ millions)	Gross[1]	Specific allowance[2]	2004 Net	2003 Net
By loan type:				
Residential mortgages	$ 274	$ (178)	**$ 96**	$ 232
Personal and credit cards	321	(282)	**39**	89
Business and governments	1,605	(861)	**744**	1,201
Total	$ 2,200[3][4]	$ (1,321)	**$ 879**	$ 1,522
By geography:				
Canada			**$ 144**	$ 241
United States			**442**	650
Other International			**293**	631
Total			**$ 879**	$ 1,522

(1) Gross impaired loans denominated in U.S. dollars amount to $940 (2003 — $1,555) and those denominated in other foreign currencies amount to $779 (2003 — $1,080).

(2) The specific allowance for impaired loans evaluated on an individual basis amounts to $865 (2003 — $1,290).

(3) Impaired loans without an allowance for credit losses against individual loans totalled $110 (2003 — $154).

(4) Average balance of gross impaired loans totalled $2,989 (2003 — $3,848).

b) Allowance for credit losses

As at October 31 ($ millions)	Specific allowance	Country risk allowance[1]	General allowance	2004	2003	2002
Balance at beginning of year	$ 1,719	$ 386	$ 1,475	**$ 3,580**	$ 3,848	$ 4,697
Presented with securities	—	(363)	—	**(363)**	—	—
Reclassified to specific allowance	23	(23)	—	**—**	—	—
Write-offs[2]	(982)	—	—	**(982)**	(948)	(2,403)
Recoveries	158	—	—	**158**	164	169
Provision for (reversal of) credit losses	490	—	(100)	**390[3]**	893	2,029
Disposal of Scotiabank Quilmes operations (including foreign exchange thereon)	—	—	—	**—**	—	(504)
Other, including foreign currency adjustment	(79)	—	—	**(79)**	(377)	(140)
Balance at end of year[3]	$ 1,329	$ —	$ 1,375	**$ 2,704**	$ 3,580[1]	$ 3,848[1]

(1) Effective November 1, 2003, the country risk allowance related to investment securities ($363) is no longer disclosed as part of the allowance for credit losses, but continues to be deducted from investment securities. The balance of the country risk allowance ($23) was related to impaired loans, and was reclassified to the specific allowance. As at October 31, 2002, the country risk allowance was $481, which included $418 that was deducted from investment securities.

(2) Write-offs of loans restructured during the year were $10 (2003 — $40; 2002 — nil).

(3) As at October 31, 2004, $8 (October 31, 2003 — nil; October 31, 2002 — nil) has been recorded in other liabilities.

6. Land, buildings and equipment

As at October 31 ($ millions)	Cost	Accumulated depreciation & amortization	2004 Net book value	2003 Net book value
Land	$ 236	$ —	**$ 236**	$ 241
Buildings	1,382	377	**1,005**	1,056
Equipment and computer software	2,392	1,945	**447**	455
Leasehold improvements	664	480	**184**	192
Total	$ 4,674	$ 2,802	**$ 1,872**	$ 1,944

Depreciation and amortization in respect of the above buildings, equipment and computer software, and leasehold improvements for the year amounted to $189 million (2003 — $208 million; 2002 — $243 million).

7. Goodwill and other intangible assets

Effective November 1, 2001, the Bank retroactively adopted a new CICA accounting standard for goodwill and other intangible assets without restatement of prior periods [refer to Note 1].

Upon completion of its transitional goodwill impairment test, the Bank determined that unamortized goodwill of $76 million relating to Scotiabank Quilmes as at November 1, 2001, was impaired under the new fair-value-based impairment methodology. This amount was charged to opening retained earnings with a corresponding reduction in goodwill on the Consolidated Balance Sheet.

The Bank determined that of its intangible assets only goodwill has an indefinite life. Accordingly, the Bank continues to amortize the other intangible assets on a straight-line basis over their estimated useful lives, not exceeding 20 years.

Goodwill

The changes in the carrying amount of goodwill by main operating segment are as follows:

As at October 31 ($ millions)	Domestic Banking	International Banking	Scotia Capital	2004	2003	2002
Balance at beginning of year	$ 115	$ 142	$ 13	**$ 270**	$ 299	$ 400
Cumulative effect of adoption of new accounting standard	—	—	—	**—**	—	(76)
	115	142	13	**270**	299	324
Acquisitions	—	—	—	**—**	76	28
Impairment	—	—	—	**—**	—	—
Adjustment to goodwill	—	—	—	**—**	(95)[1]	(37)[1]
Effects of foreign exchange and other	—	(7)	(2)	**(9)**	(10)	(16)
Balance at end of year	$ 115	$ 135	$ 11	**$ 261**	$ 270	$ 299

Intangible assets

As at October 31 ($ millions)	Gross carrying amount	Accumulated amortization	2004 Net	2003 Net	2002 Net
Intangible assets	$ 396[1]	$ 156	**$ 240**	$ 284	$ 305

Intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense for the year ended October 31, 2004, was $27 million (2003 — $29 million; 2002 — $28 million).

(1) During 2004, the Bank recognized income tax benefits of $94 (2003 — $102; 2002 — $37), relating to pre-acquisition income tax loss carryforwards that had not been reflected in the purchase price equation at the date of acquisition. These income tax benefits have been applied first to decrease goodwill by nil (2003 — $95; 2002 —$37) and then to reduce intangible assets by $18 (2003 — $7; 2002 — nil).

8. Other assets

As at October 31 ($ millions)	2004	2003
Accrued interest	**$ 1,608**	$ 1,668
Accounts receivable	**1,020**	1,331
Future income tax assets (Note 15)	**1,055**	982
Other[1]	**4,176**	1,854
Total	**$ 7,859**	$ 5,835

(1) As at October 31, 2004, foreclosed assets held for sale were $64 (2003 — $87).

9. Deposits

As at October 31 ($ millions)	Payable on demand		Payable after notice	Payable on a fixed date	2004	2003
	Interest-bearing	Non-interest-bearing				
Personal	$ 1,494	$ 1,272	$ 29,293	$ 46,961	**$ 79,020**	$ 76,431
Business and governments	10,071	7,857	12,237	63,960	**94,125**	93,541
Banks	79	397	451	21,124	**22,051**	22,700
Total	11,644	9,526	41,981	132,045	**195,196**	192,672
Recorded in:						
Canada					**136,949**	127,058
United States					**9,592**	12,199
Other International					**48,655**	53,415
Total[(1)]					**$195,196**	$192,672

(1) Deposits denominated in U.S. dollars amount to $49,923 (2003 — $53,556) and deposits denominated in other foreign currencies amount to $29,193 (2003 — $33,059).

10. Other liabilities

As at October 31 ($ millions)	2004	2003
Accrued interest	**$ 2,107**	$ 2,241
Accounts payable and accrued expenses	**3,280**	2,581
Deferred income	**341**	496
Liabilities of subsidiaries, other than deposits	**919**	1,134
Gold and silver certificates	**2,018**	2,271
Future income tax liabilities (Note 15)	**56**	70
Other	**7,012**	5,352
Total	**$15,733**	$14,145

11. Non-controlling interest in subsidiaries

As at October 31 ($ millions)	2004	2003
Non-controlling interest in common equity of subsidiaries	**$ 280**	$ 326
Scotiabank Trust Securities — Series 2000-1 issued by BNS Capital Trust (Note 13 (6))	**500**	500
Scotiabank Trust Securities — Series 2002-1 issued by Scotiabank Capital Trust (Note 13 (7))	**750**	750
Scotiabank Trust Securities — Series 2003-1 issued by Scotiabank Capital Trust (Note 13 (8))	**750**	750
Total	**$ 2,280**	$ 2,326

12. Subordinated debentures

These debentures are direct, unsecured obligations of the Bank and are subordinate to the claims of the Bank's depositors and other creditors. The Bank, where appropriate, enters into interest rate and cross-currency swaps to hedge the related risks. The outstanding debentures as at October 31 are:

As at October 31 ($ millions) Maturity date	Interest rate (%)	Terms[1] (currency in millions)	2004	2003
September 2008	6.25	US $250	**$ 305**	$ 330
February 2011	7.4	Redeemable at any time. After February 8, 2006, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1%	**300**	300
July 2012	6.25	Redeemable at any time. After July 16, 2007, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1%	**500**	500
July 2013	5.65	Redeemable at any time. After July 22, 2008, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1%	**425**	425
September 2013	8.3	Redeemable at any time	**250**	250
May 2014	5.75	Redeemable at any time. After May 12, 2009, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1%	**325**	325
June 2025	8.9	Redeemable at any time	**250**	250
August 2085	Floating	US $214 bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%. Redeemable on any interest payment date	**260**	281
			$ 2,615	$ 2,661

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

Less than 3 years	$ —
From 3 to 4 years	305
From 4 to 5 years	—
From 5 to 10 years	1,800
Over 10 years	510
	$ 2,615

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

13. Capital stock

Authorized:

An unlimited number of preferred and common shares without nominal or par value. Issued and fully paid:

	2004		2003		2002	
As at October 31 ($ millions)	**Number of shares**	**Amount**	**Number of shares**	**Amount**	**Number of shares**	**Amount**
Preferred shares:						
Series 8[1]	**—**	**$ —**	—	$ —	9,000,000	$ 225
Series 9[2]	**—**	**—**	—	—	10,000,000	250
Series 11[3]	**—**	**—**	9,992,900	250	9,992,900	250
Series 12[4]	**12,000,000**	**300**	12,000,000	300	12,000,000	300
Total issued by the Bank	**12,000,000**	**300**	21,992,900	550	40,992,900	1,025
Issued by Scotia Mortgage Investment Corporation[5]	**250,000**	**250**	250,000	250	250,000	250
Total preferred shares[6][7][8]	**12,250,000**	**$ 550**	22,242,900	$ 800	41,242,900	$ 1,275
Common shares:[9]						
Outstanding at beginning of year	**1,010,705,772**	**$ 3,140**	1,008,243,800	$ 3,002	1,007,590,938	$ 2,920
Issued under Shareholder Dividend and Share Purchase Plan[10]	**178,021**	**6**	143,400	4	169,154	4
Issued under Stock Option Plans (Note 14)	**6,760,287**	**111**	10,612,772	159	7,100,908	97
Purchased for cancellation[11]	**(9,138,500)**	**(29)**	(8,294,200)	(25)	(6,617,200)	(19)
Outstanding at end of year	**1,008,505,580**	**$ 3,228**	1,010,705,772	$ 3,140	1,008,243,800	$ 3,002
Total capital stock		**$ 3,778**		$ 3,940		$ 4,277

(1) Series 8 Non-cumulative Preferred Shares were redeemed on January 29, 2003. These shares were entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.4375. These shares were redeemed at a price of $26.00 per share, which included a premium of $1.00 per share.

(2) Series 9 Non-cumulative Preferred Shares were redeemed on April 28, 2003. These shares were entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.421875. These shares were redeemed at a price of $26.00 per share, which included a premium of $1.00 per share.

(3) Series 11 Non-cumulative Preferred Shares were redeemed on January 28, 2004. These shares were entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.375. These shares were redeemed at a price of $26.00 per share, which included a premium of $1.00 per share.

(4) Series 12 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.328125. With regulatory approval, the shares may be redeemed by the Bank at par on or after October 29, 2013, in whole or in part, by the payment in cash of $25.00 per share, together with declared and unpaid dividends to the date then fixed for redemption.

(5) Scotia Mortgage Investment Corporation, a wholly-owned subsidiary of the Bank, issued Class A Preferred Shares which are entitled to non-cumulative preferential cash dividends, if and when declared, payable semi-annually in an amount per share of $32.85. With regulatory approval, on or after October 31, 2007, Class A Preferred Shares may be redeemed in whole by the payment of cash by Scotia Mortgage Investment Corporation or, at the option of the Bank, exchanged for a variable number of common shares based upon an average of the Bank's common share price near the redemption date. On or after October 31, 2007, the Class A Preferred Shares will be exchangeable at the option of the holder into a variable number of common shares based upon an average of the Bank's common share price, subject to the right of the Bank prior to the exchange date to purchase for cash or find substitute purchasers for such shares. Under certain circumstances the Class A Preferred Shares of Scotia Mortgage Investment Corporation will be automatically exchanged, without the consent of the holder, into Series Z Non-cumulative Preferred Shares of the Bank which would bear the same dividend rate and similar redemption features.

(6) On April 4, 2000, BNS Capital Trust, a wholly-owned closed-end trust, issued 500,000 Scotiabank Trust Securities — 2000-1 ("Scotia BaTS"). Each Scotia BaTS is entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount per Scotia BaTS of $36.55. With regulatory approval, these securities may be redeemed in whole by the payment of cash prior to June 30, 2005, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2005, at the option of BNS Capital Trust. On or after June 30, 2011, the Scotia BaTS may be exchanged, at the option of the holder into Non-cumulative Preferred Shares Series Y of the Bank, subject to the right of the Bank prior to the exchange date to purchase for cash or find substitute purchasers for such securities. These Non-cumulative Preferred Shares Series Y would pay a dividend rate equivalent to the cash distribution rate of the Scotia BaTS. Under certain circumstances, the Scotia BaTS would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series Y of the Bank [refer to Note 11].

(7) On April 30, 2002, Scotiabank Capital Trust, a wholly-owned open-end trust, issued 750,000 Scotiabank Trust Securities —Series 2002-1. These securities are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $33.13 per security. The first such payment was

made on June 30, 2002, in an amount of $11.07. With regulatory approval, these securities may be redeemed in whole by the payment of cash prior to June 30, 2007, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2007, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series W of the Bank. The Series W shares will be entitled to cash dividends payable semi-annually in an amount of $0.53125 per $25.00 share. Under certain circumstances, these trust securities would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series X of the Bank. The Series X shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.70 per $25.00 share [refer to Note 11].

(8) On February 13, 2003, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities — Series 2003-1. These securities are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $31.41 per security. The first such payment was made on June 30, 2003, in an amount of $23.58. With regulatory approval, these securities may be redeemed in whole by the payment of cash prior to June 30, 2008, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2008, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series U of the Bank. The Series U shares will be entitled to cash dividends payable semi-annually in an amount of $0.50 per $25.00 share. Under certain circumstances, these trust securities would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series V of the Bank. The Series V shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.61250 per $25.00 share [refer to Note 11].

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

(10) As at October 31, 2004, 22,288,657 common shares have been reserved for future issue under the terms of the Shareholder Dividend and Share Purchase Plan.

(11) In January 2004, the Bank initiated a new normal course issuer bid. Following the payment of the stock dividend, the number of shares authorized for purchase was adjusted to 50 million. This represents approximately 5 per cent of the Bank's outstanding common shares. The bid will terminate on the earlier of January 5, 2005, or the date the Bank completes its purchases. During the year ended October 31, 2004, 9.1 million shares (2003 — 8.3 million shares; 2002 — 6.6 million shares) were purchased at an average price of $34.96 (2003— $27.31; 2002 —$24.95).

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 to 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 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.

14. 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. Effective November 1, 2002, employee stock options granted also have Tandem Stock Appreciation Rights (Tandem SARs), which allow the employee to either exercise the stock option for shares, or to exercise the Tandem SAR and thereby receive the intrinsic value of the stock option in cash. In addition, in fiscal 2003, Tandem SARs were retroactively attached to the fiscal 2002 employee stock options. All other terms and conditions relating to these 2002 stock options remained unchanged. These 2002 stock options were out of the money at the date of attachment. As a result, there was no impact on the Bank's stock-based compensation expense on the date of retroactive attachment of the Tandem SARs.

Options vest evenly over a four-year period and are exercisable no later than 10 years after the date of the grant. Outstanding options expire on dates ranging from June 2, 2005 to December 5, 2013. As approved by the shareholders, a total of 114 million common shares have been reserved for issuance under this plan (including an additional amount of 16 million approved in 2004) of which 47.7 million common shares have been issued as a result of the exercise of options, 42.5 million common shares are committed under outstanding options, leaving 23.8 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 these options are fully exercisable at the time of grant, the fair value of $0.5 million for the 2003 options was fully expensed in the 2003 fiscal year in other non-interest expenses in the Consolidated Statement of Income. These options expire between March 2011 and December 2012. Currently, 257,150 (2003 — 282,000; 2002 —206,000) options are outstanding at a weighted average exercise price of $23.13 (2003 — $22.94; 2002 — $22.40). In 2004, 24,850 of these options (2003 — nil; 2002 — nil) were exercised at a weighted average exercise price of $20.95. In 2003, 76,000 stock options were granted (2002 — 80,000). Commencing in fiscal 2004, the Bank no longer grants stock options to these directors.

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Details of the Bank's Employee Stock Option Plan [1] are as follows:

As at October 31	2004 Number of stock options (000's)	2004 Weighted average exercise price	2003 Number of stock options (000's)	2003 Weighted average exercise price	2002 Number of stock options (000's)	2002 Weighted average exercise price
Outstanding at beginning of year	**47,400**	**$ 18.80**	54,226	$ 17.63	53,046	$ 15.90
Granted	**2,592**	**31.45**	4,240	24.43	8,940	24.69
Exercised	**(6,735)**	**15.95**	(10,613)	15.00	(7,101)	13.72
Forfeited/cancelled	**(374)**	**22.64**	(411)	19.93	(659)	16.29
Exercise of Tandem SARs	**(358)**	**24.75**	(42)	24.68	—	—
Outstanding at end of year [2]	**42,525**	**$ 19.93**	47,400	$ 18.80	54,226	$ 17.63
Exercisable at end of year	**29,523**	**$ 17.67**	29,424	$ 16.59	27,550	$ 15.12
Available for grant	**23,821**		9,680		13,468	

As at October 31, 2004	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
$7.22 to $8.26	1,565	1.4	$ 8.07	1,565	$ 8.07
$13.03 to $17.55	16,615	4.2	$ 15.30	16,615	$ 15.30
$21.03 to $24.40	13,792	6.8	$ 21.99	7,699	$ 21.41
$24.68 to $31.45	10,553	7.6	$ 26.30	3,644	$ 24.68
	42,525	5.8	$ 19.93	29,523	$ 17.67

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

(2) Included are 14,482,584 (2003 — 12,750,696) options with Tandem SAR features.

b) Employee share ownership plans

Qualifying employees can contribute up to the lesser of a specified percentage of salary and a maximum dollar amount towards the purchase of common shares of the Bank or deposits with the Bank. In general, the Bank matches 50% of qualifying contributions which is expensed in salaries and employee benefits. During 2004, the Bank's contributions totalled $26 million (2003 — $24 million; 2002 — $23 million). Contributions, which are used by the plan trustee to purchase common shares in the open market, do not result in a subsequent expense to the Bank from share price appreciation.

c) Other stock-based compensation plans

All other stock-based compensation plans use notional units that are valued based on the Bank's common share price on the TSX. These units, with the exception of Stock Appreciation Rights (SARs), accumulate dividend equivalents in the form of additional units based on the dividends paid on the Bank's common shares. Fluctuations in the Bank's share price change the value of the units, which affects the Bank's stock-based compensation expense. Upon exercise, payments are made to the employees with a corresponding reduction in the accrued liability. In 2004, an aggregate expense of $174 million (2003 — $119 million; 2002 — $24 million) was recorded in salaries and employee benefits in the Consolidated Statement of Income for changes in the amount of the Bank's liability for these units. This expense was net of gains (losses) arising from securities and derivatives used to manage the volatility of stock-based compensation of $138 million (2003 — $113 million; 2002 — $(7 million)) and other items. Details of these plans are as follows:

Stock Appreciation Rights (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. 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 2004, 2,830,312 SARs were granted (2003 —5,368,824; 2002 — 11,273,844) and as at October 31, 2004, 24,115,260 SARs were outstanding (2003 — 23,661,894; 2002 —20,706,610), of which 11,278,066 SARs were vested (2003 —8,564,344; 2002 — 5,198,424).

Deferred Stock Unit Plan (DSU)

Under the DSU Plan, senior officers may elect to receive all or a portion of their cash bonus under the Management Incentive Plan (which is expensed for the year awarded in salaries and employee benefits in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only when an officer ceases to be a Bank employee and must be redeemed by December 31 of the following year. As at October 31, 2004, there were 2,160,146 units outstanding (2003 — 1,798,382; 2002 —1,494,206).

Directors' Deferred Stock Unit Plan (DDSU)

Under the DDSU Plan, non-employee 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 following year. As at October 31, 2004, there were 114,774 units outstanding (2003 — 94,096; 2002 — 71,088).

Restricted Share Unit Plan (RSU)

Under the RSU Plan, selected employees receive a bonus in the form of an award of restricted share units which vest at the end of three years. The underlying bonus and the stock-based compensation expense is recognized evenly over the three-year vesting period, at which time the units are settled, in cash, to the employee. As at October 31, 2004, there were 5,281,075 units (2003 — 3,289,900; 2002 — 985,250) awarded and outstanding of which none were vested.

Scotia Capital Deferred Payment Plan

Under the Scotia Capital Deferred Payment Plan, a portion of the bonus received by certain employees (which is accrued and expensed in the year to which it relates) is allocated to employees in the form of units. These units are subsequently paid, in cash, to the qualifying employees over each of the following three years.

Changes in the value of the units, which arise from fluctuations in the market price of the Bank's common shares, are expensed in the same manner as the Bank's other stock-based compensation plans in salaries and employee benefits expense in the Consolidated Statement of Income.

Prior to fiscal 2003, the deferred payment was held in a trust, which purchased common shares of the Bank in the open market. As a result, there was no subsequent expense to the Bank from share price appreciation.

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15. 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)	2004	2003	2002
Provision for income taxes in the Consolidated Statement of Income:			
Current	**$ 880**	$ 892	$ 497
Future	**(87)**	(108)	104
	793	784	601
Provision for future income taxes in the Consolidated Statement of Changes in Shareholders' Equity	**(1)**	26	4
Total provision for income taxes	**$ 792**	$ 810	$ 605
Current income taxes:			
Domestic:			
Federal	**$ 214**	$ 307	$ 148
Provincial	**185**	209	70
Foreign	**481**	376	279
	880	892	497
Future income taxes:			
Domestic:			
Federal	**(52)**	(48)	13
Provincial	**(7)**	(52)	23
Foreign	**(29)**	18	72
	(88)	(82)	108
Total provision for income taxes	**$ 792**	$ 810	$ 605

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:

	2004		2003		2002	
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	**$ 1,383**	**35.2%**	$ 1,289	36.4%	$ 1,004	38.4%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries and foreign branches	**(338)**	**(8.6)**	(309)	(8.7)	(308)	(11.8)
Tax-exempt income from securities	**(235)**	**(6.0)**	(197)	(5.6)	(128)	(4.9)
Future income tax effect of substantively enacted tax rate changes	**(22)**	**(0.6)**	25	0.7	30	1.2
Other, net	**5**	**0.1**	(24)	(0.6)	3	0.1
Total income taxes and effective tax rate	**$ 793**	**20.1%**	$ 784	22.2%	$ 601	23.0%

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)	2004	2003
Allowance for credit losses	**$ 604**	$ 519
Deferred compensation	**219**	132
Deferred income	**105**	142
Loss carryforwards[1]	**96**	106
Loss on disposal of subsidiary operations	**87**	84
Premises and equipment	**(73)**	(67)
Securities	**(81)**	(49)
Pension fund	**(165)**	(125)
Other	**207**	170
Net future income taxes[2]	**$ 999**	$ 912

(1) Includes a gross future tax asset of $180 as at October 31, 2004 (2003 — $295), relating to subsidiaries' unused income tax losses arising in prior years, which expire mostly by 2006. This future tax asset has been reduced by a valuation allowance of $84 (2003 — $189), resulting in a net future tax asset of $96 (2003 — $106).

(2) Net future income taxes of $999 (2003 — $912) are represented by future income tax assets of $1,055 (2003 — $982), net of future income tax liabilities of $56 (2003 — $70).

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, 2004, are estimated to be $308 million (October 31, 2003 — $412 million).

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16. 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)	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Change in benefit obligation						
Benefit obligation at beginning of year	**$ 3,524**	$ 2,919	$ 2,728	**$ 747**	$ 572	$ 526
Inclusion of Scotiabank Inverlat[2]	**—**	239	**—**	—	91	—
Cost of benefits earned in the year	**105**	91	85	**36**	31	23
Interest cost on benefit obligation	**239**	226	195	**51**	48	37
Employee contributions	**9**	8	8	**—**	—	—
Benefits paid	**(162)**	(143)	(126)	**(42)**	(41)	(31)
Actuarial loss	**136**	243	5	**40**	91	27
Non-routine events[3]	**(15)**	52	23	**(1)**	—	(8)
Foreign exchange	**(46)**	(111)	1	**(23)**	(45)	(2)
Benefit obligation at end of year[4]	**$ 3,790**	$ 3,524	$ 2,919	**$ 808**	$ 747	$ 572
Change in fair value of assets						
Fair value of assets at beginning of year	**$ 3,706**	$ 3,392	$ 3,548	**$ 162**	$ 76	$ 75
Inclusion of Scotiabank Inverlat[2]	**—**	235	—	**—**	102	—
Actual return on assets	**540**	325	(41)	**12**	13	1
Employer contributions	**77**	44	13	**41**	36	20
Employee contributions	**9**	8	8	**—**	—	—
Benefits paid	**(162)**	(143)	(126)	**(42)**	(41)	(20)
Non-routine events[3]	**(12)**	—	—	—	**—**	—
Foreign exchange	**(61)**	(155)	(10)	**(11)**	(24)	—
Fair value of assets at end of year[5]	**$ 4,097**	$ 3,706	$ 3,392	**$ 162**	$ 162	$ 76
Funded Status						
Excess (deficit) of fair value of assets over benefit obligation at end of year	**$ 307**	$ 182	$ 473	**$ (646)**	$ (585)	$ (496)
Unrecognized net actuarial loss	**663**	825	625	**180**	152	76
Unrecognized past service costs	**63**	73	28	**(6)**	(7)	(8)
Unrecognized transitional obligation (asset)	**(460)**	(510)	(589)	**267**	294	329
Valuation allowance	**(171)**	(155)	(133)	**—**	—	—
Employer contributions after measurement date	**129**	27	3	**19**	9	8
Net prepaid (accrued) benefit expense at end of year	**$ 531**	$ 442	$ 407	**$ (186)**	$ (137)	$ (91)
Recorded in:						
Other assets in the Bank's Consolidated Balance Sheet	**676**	583	544	**4**	—	—
Other liabilities in the Bank's Consolidated Balance Sheet	**(145)**	(141)	(137)	**(190)**	(137)	(91)
Net prepaid (accrued) benefit expense at end of year	**$ 531**	$ 442	$ 407	**$ (186)**	$ (137)	$ (91)
Annual benefit expense						
Cost of benefits earned in the year	**$ 105**	$ 91	$ 85	**$ 36**	$ 31	$ 23
Interest cost on benefit obligation	**239**	226	195	**51**	48	37
Actual return on assets	**(540)**	(325)	41	**(12)**	(13)	(1)
Actuarial loss on benefit obligation	**136**	243	5	**40**	91	27
Non-routine events[3]	**(3)**	52	23	**(1)**	—	(8)
Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs	**(63)**	287	349	**114**	157	78
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	**272**	50	(316)	**—**	(1)	(4)
Difference between net actuarial loss recognized and actual actuarial loss on benefit obligation	**(105)**	(242)	(5)	**(33)**	(89)	(25)
Difference between amortization of non-routine events and actual non-routine events	**9**	(50)	(21)	**—**	(1)	7
Amortization to recognize transitional obligation (asset)	**(43)**	(44)	(45)	**23**	24	24
	133	(286)	(387)	**(10)**	(67)	2
Valuation allowance provided against prepaid benefit expense	**16**	22	24	**—**	—	—
Benefit expense (income) recognized	**$ 86**	$ 23	$ (14)	**$ 104**	$ 90	$ 80

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

(2) Scotiabank Inverlat was included as a principal plan for the first time in 2003. Prior years have not been restated since the information is not available.

(3) Non-routine events include plan amendments, acquisitions, divestitures, transfers, etc.

(4) Certain Canadian pension plans were amended after the measurement date resulting in a net increase of $16 million in the benefit obligation.

(5) The fair value of assets invested in common shares of the Bank totalled $498 (2003 — $405; 2002 — $360).

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

	Pension plans			Other benefit plans		
For the year ended October 31 ($ millions)	2004	2003	2002	2004	2003	2002
Benefit obligation[1]	$ 830	$ 821	$ 522	**$ 808**	$ 747	$ 572
Fair value of assets	497	451	235	**162**	162	76
Excess (deficit) of fair value of assets over benefit obligation	$ (333)	$ (370)	$ (287)	**$ (646)**	$ (585)	$ (496)

(1) Includes the benefit obligation of $230 million at the end of 2004 (2003 — $228 million; 2002 — $164 million) related to supplemental unfunded pension arrangements.

Key weighted-average assumptions (%)[1]

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

	Pension plans			Other benefit plans		
For the year ended October 31	2004	2003	2002	2004	2003	2002
To determine benefit obligation at end of year						
Discount rate	6.50%	6.75%	7.00%	**6.90%**	6.85%	7.00%
Rate of increase in future compensation	3.70%	3.95%	3.90%	**4.00%**	4.00%	3.90%
To determine benefit expense (income) for the year						
Discount rate	6.50%	7.25%	6.75%	**6.85%**	7.40%	6.75%
Assumed long-term rate of return on assets	7.25%	7.25%	7.50%	**7.60%**	8.50%	7.50%
Rate of increase in future compensation	3.95%	4.05%	3.90%	**4.00%**	3.90%	3.90%
Health care cost trend rates at end of year						
Initial rate	n/a	n/a	n/a	**8.10%**	7.40%	7.90%
Ultimate rate	n/a	n/a	n/a	**4.90%**	4.60%	4.30%
Year ultimate rate reached	n/a	n/a	n/a	**2011**	2009	2008

(1) Includes international plans which generally have higher rates than Canadian plans. For Canadian pension plans, the discount rate used to determine the 2004 benefit expense is 6.50% (2003 — 7.00%; 2002 — 6.75%), the discount rate for the end of year benefit obligation is 6.25% (2003 — 6.50%; 2002 — 7.00%) for the main pension plan and 6.50% (2003 — 6.50%; 2002 — 7.00%) for the other Canadian pension plans, and the assumed long-term rate of return on assets is 7.00% (2003 — 7.00%, 2002 — 7.50%).

Sensitivity analysis

	Pension plans		Other benefit plans	
For the year ended October 31, 2004 ($ millions)	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Impact of 1% decrease in discount rate	$ 616	$ 60	$ 127	$ 14
Impact of 1% decrease in assumed long-term rate of return on assets	n/a	33	n/a	2
Impact of 0.25% increase in rate of increase in future compensation	35	6	1	—
Impact of 1% increase in health care cost trend rate	n/a	n/a	90	16
Impact of 1% decrease in health care cost trend rate	n/a	n/a	(73)	(13)

Assets

The Bank's principal plans' weighted-average asset allocations at the measurement date, by asset category, are as follows:

	Pension plans			Other benefit plans		
Asset category	2004	2003	2002	2004	2003	2002
Equity investments	**67%**	65%	63%	**13%**	10%	23%
Fixed income investments	**32%**	35%	37%	**87%**	90%	77%
Other	**1%**	—	—	**—**	—	—
Total	**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, 2003, and the date of the next required valuation is November 1, 2006 (this plan accounts for 69% of principal pension plans' benefit obligation and 70% of principal pension plans' fair value of assets). The Bank may choose to

perform a valuation at another date, which is earlier than November 1, 2006. 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, 2002 for the other post-retirement benefits and July 31, 2004 for post-employment benefits. The next actuarial valuations are currently scheduled in 2005 and 2006, respectively.

Cash payments and contributions

In fiscal year 2004, the Bank made cash payments of $179 million (2003 — $68 million; 2002 — $13 million) to fund the principal pension plans, including the payment of benefits to beneficiaries under the unfunded pension arrangements. The Bank also made cash payments of $51 million (2003 — $37 million; 2002 — $30 million) during the year to the principal other benefit plans, primarily in respect of benefit payments to beneficiaries under these plans.

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17. Earnings per common share [1]

For the year ended October 31 ($ millions)	2004	2003	2002
Basic earnings per common share			
Net income	**$ 2,931**	$ 2,477	$ 1,797
Preferred dividends paid and other	**39**	71	105
Net income available to common shareholders	**$ 2,892**	$ 2,406	$ 1,692
Average number of common shares outstanding (millions)	**1,010**	1,010	1,009
Basic earnings per common share [2]	**$ 2.87**	$ 2.38	$ 1.68
Diluted earnings per common share			
Net income available to common shareholders	**$ 2,892**	$ 2,406	$ 1,692
Average number of common shares outstanding (millions)	**1,010**	1,010	1,009
Stock options potentially exercisable (millions) [3]	**16**	16	17
Average number of diluted common shares outstanding (millions) [4]	**1,026**	1,026	1,026
Diluted earnings per common share [2]	**$ 2.82**	$ 2.34	$ 1.65

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

(2) Earnings per share calculations are based on full dollar and share amounts.

(3) 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 booked as liabilities. All other stock options are included in the computation.

(4) Convertible preferred shares have not been included in the calculation since the Bank has the right to redeem them for cash prior to conversion date.

18. Related party transactions

In the ordinary course of business, the Bank provides normal banking services to its associated and other related corporations on terms similar to those offered to non-related parties.

In Canada, loans are currently granted to directors, officers and employees at market terms and conditions. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers and employees of those foreign units at reduced rates or on preferred terms. Effective March 1, 2001, the Bank discontinued the practice of granting loans to officers and employees in Canada at reduced rates. Any of these loans granted prior to March 1, 2001 are grandfathered until maturity.

Directors can use some or all of their director fees earned to buy common shares of the Bank at market rates. Commencing in 2004, the Bank no longer grants stock options to non-officer Directors (refer to Note 14 — Stock-based compensation).

19. Segmented results of operations

Scotiabank is a diversified financial services institution that provides a wide range of financial products and services to retail, commercial and corporate customers around the world. The Bank is organized into three main operating segments: Domestic Banking, International Banking, and Scotia Capital.

Domestic Banking, including Wealth Management, provides a comprehensive array of retail and commercial banking services through branch and electronic delivery channels, to individuals and small to medium-sized businesses in Canada. The retail services include consumer and mortgage lending, credit and debit card services, savings, chequing and retirement products, personal trust services, retail brokerage, mutual funds and transaction services. In addition to credit, commercial clients are provided with deposit and cash management services.

International Banking supplies retail and commercial banking services through branches, subsidiaries and foreign affiliates. The products, services and channels offered are generally the same as those in Domestic Banking.

Scotia Capital is an integrated corporate and investment bank which services the credit, capital market and risk management needs of the Bank's global relationships with large corporations, financial institutions and governments. The services provided include credit and related products, debt and equity underwriting, foreign exchange, derivative products, precious metals products and financial advisory services. Also, it conducts trading activities for its own account and manages the short-term funding of the Bank.

The Other category represents smaller operating segments, including Group Treasury and other corporate items, which are not allocated to an operating segment.

The results of these business segments are based upon the internal financial reporting systems of the Bank. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. The only notable accounting measurement difference is the grossing up of tax-exempt net interest income to an equivalent before-tax basis for those affected segments. This change in measurement enables comparison of net interest income arising from taxable and tax-exempt sources.

Because of the complexity of the Bank, various estimates and allocation methodologies are used in the preparation of the business segment

financial information. The assets and liabilities are transfer-priced at wholesale market rates, and corporate expenses are allocated to each segment based on utilization. As well, capital is apportioned to the business segments on a risk-based methodology. Transactions between segments are recorded within segment results as if conducted with a third party and are eliminated on consolidation.

For the year ended October 31, 2004 ($ millions) Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,535	$ 1,895	$ 983	$ (548)	**$ 5,865**
Provision for credit losses	317	70	106	(103)	**390**
Other income	1,671	741	1,227	681	**4,320**
Net interest and other income	4,889	2,566	2,104	236	**9,795**
Depreciation and amortization	137	57	21	1	**216**
Other non-interest expenses	3,080	1,549	939	78	**5,646**
Income before the undernoted:	1,672	960	1,144	157	**3,933**
Provision for income taxes	536	139	290	(172)	**793**
Non-controlling interest in net income of subsidiaries	—	75	—	134	**209**
Net income	$ 1,136	$ 746	$ 854	$ 195	**$ 2,931**
Total average assets ($ billions)	$ 112	$ 49	$ 109	$ 14	**$ 284**

For the year ended October 31, 2003 ($ millions) Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,474	$ 2,028	$ 1,249	$ (601)	$ 6,150
Provision for credit losses	272	73	549	(1)	893
Other income	1,528	776	1,289	422	4,015
Net interest and other income	4,730	2,731	1,989	(178)	9,272
Depreciation and amortization	150	66	20	1	237
Other non-interest expenses	2,926	1,591	966	11	5,494
Income before the undernoted:	1,654	1,074	1,003	(190)	3,541
Provision for income taxes	560	245	282	(303)	784
Non-controlling interest in net income of subsidiaries	—	160	—	120	280
Net income	$ 1,094	$ 669	$ 721	$ (7)	$ 2,477
Total average assets ($ billions)	$ 101	$ 52	$ 119	$ 17	$ 289

For the year ended October 31, 2002 ($ millions) Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,405	$ 2,225	$ 1,615	$ (570)	$ 6,675
Provision for credit losses	282	523	1,247	(23)	2,029
Other income	1,599	678	1,255	410	3,942
Net interest and other income	4,722	2,380	1,623	(137)	8,588
Depreciation and amortization	159	80	27	5	271
Other non-interest expenses	2,794	2,016	995	(102)	5,703
Income before the undernoted:	1,769	284	601	(40)	2,614
Provision for income taxes	627	5	221	(252)	601
Non-controlling interest in net income of subsidiaries	—	154	—	62	216
Net income	$ 1,142	$ 125	$ 380	$ 150	$ 1,797
Total average assets ($ billions)	$ 93	$ 58	$ 124	$ 22	$ 297

(1) Includes revenues from all other smaller operating segments of $451 in 2004 (2003 — $240; 2002 — $243), and net income of $271 in 2004 (2003 — $132; 2002 —$147). 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 $274 (2003 — $278; 2002 — $268), changes in the general allowance, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

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, 2004 ($ millions)	Canada	United States	Other International	Total
Net interest income	$ 3,686	$ 354	$ 2,088	**$ 6,128**
Provision for credit losses	303	54	136	**493**
Other income	2,495	513	1,058	**4,066**
Non-interest expenses	3,794	262	1,776	**5,832**
Provision for income taxes	405	200	203	**808**
Non-controlling interest in net income of subsidiaries	—	—	75	**75**
Income	$ 1,679	$ 351	$ 956	**$ 2,986**
Corporate adjustments				**(55)**
Net income				**$ 2,931**
Total average assets ($ billions)	$ 188	$ 21	$ 73	**$ 282**
Corporate adjustments				**2**
Total average assets, including corporate adjustments				**$ 284**

For the year ended October 31, 2003 ($ millions)	Canada	United States	Other International	Total
Net interest income	$ 3,657	$ 586	$ 2,249	$ 6,492
Provision for credit losses	396	270	228	894
Other income	2,377	448	967	3,792
Non-interest expenses	3,623	311	1,825	5,759
Provision for income taxes	444	175	249	868
Non-controlling interest in net income of subsidiaries	—	—	160	160
Income	$ 1,571	$ 278	$ 754	$ 2,603
Corporate adjustments				(126)
Net income				$ 2,477
Total average assets ($ billions)	$ 176	$ 34	$ 75	$ 285
Corporate adjustments				4
Total average assets, including corporate adjustments				$ 289

For the year ended October 31, 2002 ($ millions)	Canada	United States	Other International	Total
Net interest income	$ 3,798	$ 748	$ 2,545	$ 7,091
Provision for credit losses	319	1,131	602	2,052
Other income	2,338	475	846	3,659
Non-interest expenses	3,527	324	2,263	6,114
Provision for income taxes	668	(89)	55	634
Non-controlling interest in net income of subsidiaries	—	—	154	154
Income	$ 1,622	$ (143)	$ 317	$ 1,796
Corporate adjustments				1
Net income				$ 1,797
Total average assets ($ billions)	$ 165	$ 44	$ 83	$ 292
Corporate adjustments				5
Total average assets, including corporate adjustments				$ 297

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

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20. Guarantees, commitments and contingent liabilities

a) Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform related to its indebtedness. The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

	2004		2003	
As at October 31 ($ millions)	**Maximum potential amount of future payments[1]**	**Carrying value**	**Maximum potential amount of future payments[1]**	**Carrying value**
Standby letters of credit and letters of guarantee	**$ 14,417**	**$ —**	$ 14,176	$ —
Derivative instruments	**4,500**	**42**	1,376	56
Liquidity facilities	**14,577**	**—**	14,543	—
Securitizations	**1,319**	**—**	2,417	—
Indemnifications	**495**	**9**	434	10
Other guarantees	**1**	**—**	3	—

(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.

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.

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. No amounts have been recorded in the Consolidated Balance Sheet with respect to these facilities.

Credit enhancements

The Bank provides partial credit enhancements, in the form of financial standby letters of credit, to commercial paper conduits, administered by the Bank and by third parties. As at October 31, 2004, these credit enhancements amounted to $846 million (2003 — $846 million) and are included within standby letters of credit and letters of guarantee 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.

Securitizations

The Bank's revolving securitization agreements may require payments to be made to the trusts under certain limited circumstances. These guarantees will be outstanding for the remaining term to maturity of the trusts' securitization notes, which is on average 19 months. These payments are contingent on failure to maintain a minimum pool size due to the occurrence of certain limited predefined events.

Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, service agreements, trademark licensing agreements, escrow arrangements, sales of assets or businesses, outsourcing agreements, leasing arrangements, clearing system arrangements, securities lending agency agreements and structured transactions. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events

occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In certain types of arrangements, the Bank may in turn obtain indemnifications from other parties to the arrangement or may have access to collateral under recourse provisions. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the Bank cannot estimate in all cases the maximum potential future amount that may be payable, nor the amount of collateral or assets available under recourse provisions that would mitigate any such payments. Historically, the Bank has not made any significant payments under these indemnities. As at October 31, 2004, $9 million (2003 — $10 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

b) Other indirect commitments

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

— Commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed;

— Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions;

— Securities lending transactions under which the Bank, acting as principal or agent, agrees to lend securities to a borrower. The borrower must fully collateralize the security loan at all times. The market value of the collateral is monitored relative to the amounts due under the agreements, and where necessary, additional collateral is obtained;

— 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)	2004	2003
Commercial letters of credit	**$ 849**	$ 700
Commitments to extend credit:		
Original term to maturity of one year or less	**67,038**	76,194
Original term to maturity of more than one year	**37,129**	34,335
Securities lending	**2,639**	4,454
Security purchase and other commitments	**1,380**	2,552
Total	**$109,035**	$118,235

c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2004, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year ($ millions)	
2005	$ 162
2006	124
2007	97
2008	77
2009	58
2010 and thereafter	172
Total	$ 690

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $170 million (2003 — $180 million; 2002 — $192 million).

In addition, the Bank and its subsidiaries have entered into certain long-term executory contracts relating to outsourced services.

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 assets are shown below.

As at October 31 ($ millions)	2004	2003
Assets pledged to:		
Bank of Canada[(1)]	**$ 60**	$ 76
Foreign governments and central banks [(1)]	**2,394**	2,645
Clearing systems, payment systems and depositories [(1)]	**927**	861
Assets pledged in relation to exchange-traded derivative transactions	**131**	135
Assets pledged as collateral related to securities borrowed, and securities lent	**7,878**	9,909
Assets pledged in relation to over-the-counter derivative transactions	**2,515**	2,160
Total assets pledged	**13,905**	15,786
Securities sold under repurchase agreements	**19,428**	28,686
Total	**$33,333**	$44,472

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

e) Litigation

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants.

In view of the inherent difficulty of predicting the outcome of such matters, the Bank cannot state what the eventual outcome of such matters will be; however, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the consolidated financial position, or results of operations of the Bank.

21. Financial instruments

a) Fair value

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

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The majority of the Bank's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value.

The following table sets out the fair values of on-balance sheet financial instruments and derivative 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.

	2004			2003		
As at October 31 ($ millions)	Total fair value	Total book value	Favourable/ (Unfavourable)	Total fair value	Total book value	Favourable/ (Unfavourable)
Assets:						
Cash resources	**$ 17,155**	**$ 17,155**	**$ —**	$ 20,581	$ 20,581	$ —
Securities	**60,127**	**58,773**	**1,354**[1]	64,073	63,192	881[1]
Loans	**172,648**	**171,768**	**880**	172,789	171,667	1,122
Customers' liability under acceptances	**7,086**	**7,086**	**—**	6,811	6,811	—
Other	**4,738**	**4,738**	**—**	3,613	3,613	—
Liabilities:						
Deposits	**195,946**	**195,196**	**(750)**	193,856	192,672	(1,184)
Acceptances	**7,086**	**7,086**	**—**	6,811	6,811	—
Obligations related to securities sold under repurchase agreements	**19,428**	**19,428**	**—**	28,686	28,686	—
Obligations related to securities sold short	**7,585**	**7,585**	**—**	9,219	9,219	—
Other	**13,957**	**13,957**	**—**	12,820	12,820	—
Subordinated debentures	**2,840**	**2,615**	**(225)**	2,880	2,661	(219)
Derivatives (Note 22)	**(602)**	**(514)**[2]	**(88)**	(520)	(388)[2]	(132)

(1) This excludes net deferred hedge losses on securities of $221 (2003 — $16).

(2) This represents a net liability.

The book value of financial assets and financial liabilities held for purposes other than trading may exceed their fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair value as it is the Bank's intention to hold them to maturity.

Determination of fair value

The following methods and assumptions were used to estimate the fair values of on-balance sheet financial 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.

The fair value of securities is assumed to be equal to the estimated market value of securities provided in Note 3. The fair value of obligations related to securities sold short is assumed to be equal to their book value as they are carried at market value. These market values are based on quoted prices, when available. When a quoted price is not readily available, market 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 loans to designated emerging markets, fair value is based on quoted market prices.

— For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.

— For all other loans, fair value is determined by discounting the expected future cash flows of these loans at market rates for loans with similar terms and risks.

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

The fair value of subordinated debentures is determined by reference to current market prices for debt with similar terms and risks.

b) Interest rate risk

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity, and off-balance sheet financial instruments 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 to reclassify the Bank's trading instruments to the immediately rate-sensitive category.

As at October 31, 2004 ($ 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	$ 1,325	$ 10,788	$ 862	$ 16	$ —	$ 4,164	$ 17,155
Investment securities	475	3,111	1,752	4,696	2,823	2,860[2]	15,717
Trading securities	—	4,468	3,162	8,193	5,264	21,969	43,056
Loans	24,704	69,722	20,469	54,371	2,998	(496)[3]	171,768
Other assets	—	—	—	—	—	31,516[4]	31,516
Total assets	26,504	88,089	26,245	67,276	11,085	60,013	279,212
Deposits	23,168	100,687	25,657	36,372	608	8,704	195,196
Obligations related to securities sold under repurchase agreements	—	17,453	1,975	—	—	—	19,428
Obligations related to securities sold short	—	997	170	2,712	2,944	762	7,585
Subordinated debentures	—	—	260	1,855	500	—	2,615
Other liabilities	—	—	—	—	—	39,153[4]	39,153
Shareholders' equity	—	—	—	—	—	15,235[4]	15,235
Total liabilities and shareholders' equity	23,168	119,137	28,062	40,939	4,052	63,854	279,212
On-balance sheet gap	3,336	(31,048)	(1,817)	26,337	7,033	(3,841)	—
Off-balance sheet gap	—	2,733	(2,079)	(857)	203	—	—
Interest rate sensitivity gap based on contractual repricing	3,336	(28,315)	(3,896)	25,480	7,236	(3,841)	—
Adjustment to expected repricing	1,387	31,187	(602)	(10,484)	(5,852)	(15,636)	—
Total interest rate sensitivity gap	**$ 4,723**	**$ 2,872**	**$ (4,498)**	**$ 14,996**	**$ 1,384**	**$(19,477)**	**$ —**
Cumulative gap	**4,723**	**7,595**	**3,097**	**18,093**	**19,477**	**—**	**—**
As at October 31, 2003							
Total interest rate sensitivity gap	$ 20,790	$ (22,006)	$ (1,293)	$ 21,603	$ 3,225	$(22,319)	$ —
Cumulative gap	20,790	(1,216)	(2,509)	19,094	22,319	—	—

(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 includes financial instruments such as common shares, non-term preferred shares, and shares in associated corporations.

(3) This includes net impaired loans and the general allowance.

(4) This includes non-financial instruments.

The tables on the following page summarize average effective yields, by the earlier of the contractual repricing or maturity dates, for the following on-balance sheet rate-sensitive financial instruments (these rates are shown before and after adjusting for the impact of related derivatives used by the Bank for asset/liability risk management purposes).

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

As at October 31, 2004	Unadjusted						Adjusted
	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total	Total[1]
Cash resources	1.2%	3.2%	4.0%	4.0%	—%	**3.0%**	**3.0%**
Investment securities[2]	3.2	5.7	5.2	4.5	6.6	**5.3**	**5.2**
Trading securities	—	3.2	5.5	4.5	5.6	**4.6**	**4.6**
Loans[3]	5.4	4.3	5.4	6.1	8.6	**5.2**	**5.2**
Deposits[4]	1.6	2.5	2.6	2.9	4.8	**2.5**	**2.6**
Obligations related to securities sold under repurchase agreements[4]	—	4.2	4.2	—	—	**4.2**	**4.2**
Obligations related to securities sold short	—	2.5	2.7	3.5	4.9	**3.9**	**3.9**
Subordinated debentures[4]	—	—	2.1	6.2	8.6	**6.3**	**5.0**

As at October 31, 2003	Unadjusted						Adjusted
	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total	Total[1]
Cash resources	1.9%	2.2%	3.6%	1.4%	—%	2.4%	2.4%
Investment securities[2]	2.7	4.1	5.8	5.3	6.4	5.2	5.1
Trading securities	—	4.6	3.3	3.4	5.1	4.2	4.2
Loans[3]	6.3	4.2	5.3	6.2	7.3	5.3	5.3
Deposits[4]	2.3	2.0	2.8	4.3	4.7	2.5	2.5
Obligations related to securities sold under repurchase agreements[4]	—	2.5	6.9	—	—	2.7	2.7
Obligations related to securities sold short	—	2.6	2.7	3.2	5.1	4.1	4.1
Subordinated debentures[4]	—	—	1.5	6.4	7.5	6.2	4.1

(1) After adjusting for the impact of related derivatives.

(2) Yields are based on book values and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. Yields on tax-exempt securities have not been computed on a taxable equivalent basis.

(3) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any deferred income.

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

c) Credit exposure

The following table summarizes the credit exposure of the Bank to businesses and governments, net of the allowance for credit losses.

As at September 30 ($ millions)	2004				2003
	Loans and acceptances[1]	Derivative instruments[2]	Other exposures[3]	Total	Total
By sector:					
Resource and manufacturing, excluding automotive	$ 18,018	$ 680	$ 4,155	**$22,853**	$ 24,162
Finance and government	9,178	12,880	4,800	**26,858**	27,115
Other	36,158	1,783	7,267	**45,208**	53,447
Total	$ 63,354	$ 15,343	$ 16,222	**$94,919**	$104,724
General allowance[2][4]				**1,355**	1,457
				$93,564	$103,267
By geography[5]:					
Canada	$ 28,737	$ 6,621	$ 5,389	**$40,747**	$ 41,266
United States	9,757	3,828	7,756	**21,341**	26,453
Other International	24,860	4,894	3,077	**32,831**	37,005
Total	$ 63,354	$ 15,343	$ 16,222	**$94,919**	$104,724
General allowance[2][4]				**1,355**	1,457
				$93,564	$103,267

(1) Excludes securities purchased under resale agreements.

(2) Derivative instruments and general allowance are as at October 31.

(3) Comprises guarantees and letters of credit.

(4) The remaining $20 (2003 — $18) of the $1,375 (2003 — $1,475) general allowance relates to loans other than business and government loans.

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

d) Anticipatory hedges

In its normal course of business, the Bank may decide to hedge anticipatory transactions such as future foreign revenues and expenses and planned deposit campaigns. As at October 31, 2004, and 2003, there were no material anticipatory hedges outstanding.

22. Derivative instruments

a) Notional amounts

The following table provides the aggregate notional amounts of off-balance sheet 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). The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Other derivative contracts — other includes precious metals other than gold, and base metal derivatives.

	2004			2003		
As at October 31 ($ millions)	**Trading**	**ALM**	**Total**	**Trading**	**ALM**	**Total**
Interest rate contracts						
Exchange-traded:						
Futures	$ 45,226	$ 14,744	**$ 59,970**	$ 53,630	$ 29,335	$ 82,965
Options purchased	14,838	—	**14,838**	15,561	—	15,561
Options written	4,454	—	**4,454**	2,571	129	2,700
	64,518	14,744	**79,262**	71,762	29,464	101,226
Over-the-counter:						
Forward rate agreements	45,628	14,440	**60,068**	67,250	23,343	90,593
Swaps	388,839	83,436	**472,275**	410,343	73,739	484,082
Options purchased	31,714	4,601	**36,315**	37,131	1,954	39,085
Options written	39,317	914	**40,231**	46,668	1,387	48,055
	505,498	103,391	**608,889**	561,392	100,423	661,815
Total	$570,016	$118,135	**$688,151**	$633,154	$129,887	$ 763,041
Foreign exchange and gold contracts						
Exchange-traded:						
Futures	$ 2,964	$ —	**$ 2,964**	$ 2,684	$ —	$ 2,684
Options purchased	14	—	**14**	69	—	69
Options written	3	—	**3**	145	—	145
	2,981	—	**2,981**	2,898	—	2,898
Over-the-counter:						
Spot and forwards	177,699	5,391	**183,090**	177,165	10,067	187,232
Swaps	41,217	11,429	**52,646**	40,529	11,728	52,257
Options purchased	2,896	—	**2,896**	3,337	—	3,337
Options written	2,831	—	**2,831**	3,018	—	3,018
	224,643	16,820	**241,463**	224,049	21,795	245,844
Total	$227,624	$ 16,820	**$244,444**	$226,947	$ 21,795	$ 248,742
Other derivative contracts						
Equity: over-the-counter	$ 20,471	$ 2,770	**$ 23,241**	$ 17,268	$ 3,330	$ 20,598
Credit: over-the-counter	17,875	940	**18,815**	15,051	2,301	17,352
Other	2,583	31	**2,614**	2,912	—	2,912
Total	$ 40,929	$ 3,741	**$ 44,670**	$ 35,231	$ 5,631	$ 40,862
Total notional amounts outstanding	$838,569	$138,696	**$977,265**	$895,332	$157,313	$1,052,645

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, 2004 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 41,085	$ 18,885	$ —	**$ 59,970**
Forward rate agreements	59,553	515	—	**60,068**
Swaps	183,124	217,656	71,495	**472,275**
Options purchased	34,294	15,789	1,070	**51,153**
Options written	24,370	17,573	2,742	**44,685**
	342,426	270,418	75,307	**688,151**
Foreign exchange and gold contracts				
Futures	2,253	711	—	**2,964**
Spot and forwards	169,124	13,097	869	**183,090**
Swaps	9,590	28,552	14,504	**52,646**
Options purchased	2,328	582	—	**2,910**
Options written	2,369	465	—	**2,834**
	185,664	43,407	15,373	**244,444**
Other derivative contracts				
Equity	17,485	5,603	153	**23,241**
Credit	5,474	13,081	260	**18,815**
Other	2,407	207	—	**2,614**
	25,366	18,891	413	**44,670**
Total	$553,456	$332,716	$91,093	**$977,265**

As at October 31, 2003 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 65,704	$ 17,261	$ —	$ 82,965
Forward rate agreements	89,707	886	—	90,593
Swaps	203,954	214,751	65,377	484,082
Options purchased	29,380	23,792	1,474	54,646
Options written	24,394	23,954	2,407	50,755
	413,139	280,644	69,258	763,041
Foreign exchange and gold contracts				
Futures	2,130	554	—	2,684
Spot and forwards	172,484	13,468	1,280	187,232
Swaps	17,025	23,543	11,689	52,257
Options purchased	2,637	769	—	3,406
Options written	2,438	725	—	3,163
	196,714	39,059	12,969	248,742
Other derivative contracts				
Equity	16,834	3,722	42	20,598
Credit	2,976	13,910	466	17,352
Other	2,665	247	—	2,912
	22,475	17,879	508	40,862
Total	$632,328	$337,582	$82,735	$1,052,645

c) Credit risk

As with on-balance sheet 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 on-balance sheet 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 on-balance sheet assets.

The Bank pursues opportunities to reduce its exposure to credit losses on derivative instruments. These opportunities include entering into master netting arrangements with counterparties. The credit risk associated with favourable contracts is eliminated by a master netting arrangement to the extent that unfavourable contracts with the same counterparty are not settled before favourable contracts.

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

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

	2004					2003	
As at October 31 ($ millions)	Notional amount	Credit risk amount (CRA) (a)	Potential future exposure (b)	Credit equivalent amount (CEA) (a) + (b)	Risk-weighted balance	Credit risk amount (CRA)	Risk-weighted balance
Interest rate contracts							
Futures	$ 59,970	$ —	$ —	$ —	**$ —**	$ —	$ —
Forward rate agreements	60,068	31	3	34	**13**	26	6
Swaps	472,275	5,974	1,935	7,909	**1,829**	7,624	2,179
Options purchased	51,153	366	94	460	**108**	530	167
Options written	44,685	—	—	—	**—**	—	—
	688,151	6,371	2,032	8,403	**1,950**	8,180	2,352
Foreign exchange and gold contracts							
Futures	2,964	—	—	—	**—**	—	—
Spot and forwards	183,090	4,757	2,218	6,975	**2,076**	4,744	2,065
Swaps	52,646	3,437	2,612	6,049	**1,644**	2,786	1,270
Options purchased	2,910	93	52	145	**52**	126	71
Options written	2,834	—	—	—	**—**	—	—
	244,444	8,287	4,882	13,169	**3,772**	7,656	3,406
Other derivative contracts							
Equity	23,241	408	1,420	1,828	**564**	258	477
Credit	18,815	139	880	1,019	**289**	209	279
Other	2,614	138	187	325	**118**	52	97
	44,670	685	2,487	3,172	**971**	519	853
Total derivatives	$977,265	$ 15,343	$ 9,401	$ 24,744	**$ 6,693**	$ 16,355	$ 6,611
Less: impact of master netting agreements		8,039	3,494	11,533	**2,745**	9,619	3,173
Total		$ 7,304	$ 5,907	$ 13,211	**$ 3,948**	$ 6,736	$ 3,438

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.

Trading derivatives are subject to a further valuation adjustment, determined on a portfolio basis, to cover future risks and related costs.

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).

	2004		2004		2003	
	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	$ 20	$ 25	**$ 26**	**$ 14**	$ 18	$ 30
Swaps	6,538	5,734	**5,554**	**4,742**	7,159	6,068
Options	452	575	**345**	**452**	520	686
	7,010	6,334	**5,925**	**5,208**	7,697	6,784
Foreign exchange and gold contracts						
Forwards	3,968	3,876	**4,701**	**4,668**	4,704	4,624
Swaps	2,323	2,116	**3,048**	**2,861**	2,435	2,203
Options	109	145	**93**	**129**	126	181
	6,400	6,137	**7,842**	**7,658**	7,265	7,008
Other derivative contracts						
Equity	198	652	**172**	**795**	134	711
Credit	204	254	**121**	**237**	160	196
Other	160	139	**138**	**156**	52	59
	562	1,045	**431**	**1,188**	346	966
Trading derivatives' market valuation	$ 13,972	$ 13,516	**$ 14,198**	**$ 14,054**	$ 15,308	$ 14,758
ALM [2]						
Interest rate contracts						
Forward rate agreements			**$ 5**	**$ 5**	$ 8	$ 7
Swaps			**420**	**486**	465	781
Options			**21**	**—**	10	—
			446	**491**	483	788
Foreign exchange and gold contracts						
Forwards			**56**	**189**	40	139
Swaps			**389**	**1,197**	351	1,165
Options			**—**	**—**	—	—
			445	**1,386**	391	1,304
Other derivative contracts						
Equity			**236**	**6**	124	22
Credit			**18**	**8**	49	3
Other			**—**	**—**	—	—
			254	**14**	173	25
Total ALM derivatives' market valuation			**$ 1,145**	**$ 1,891**	$ 1,047	$ 2,117
Total gross fair values before netting			**$ 15,343**	**$ 15,945**	$ 16,355	$ 16,875
Less: impact of master netting agreements			**8,039**	**8,039**	9,619	9,619
Total derivatives' market valuation			**$ 7,304**	**$ 7,906**	$ 6,736	$ 7,256

(1) The average fair value of trading derivatives' market valuation for the year ended October 31, 2003 are: favourable $16,422 and unfavourable $15,944. Average fair value amounts are based on month-end balances.

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

23. Argentine charges

In the first quarter of fiscal 2002, a significant provision for credit losses and other charges were recorded against the Bank's operations in Scotiabank Quilmes and against cross-border Argentine risk, as a result of the extraordinary political and economic upheaval in Argentina.

In September 2002, Scotiabank Quilmes ceased operations following the finalization of arrangements with the Argentine financial authorities and other private sector institutions. Based on these arrangements, certain deposits were transferred to the government along with an equivalent amount of sovereign loans. The remaining assets and liabilities were assumed by other local financial institutions or placed in an Argentine liquidating trust.

In the fourth quarter of 2002, as the Bank no longer had control of Scotiabank Quilmes, the remaining assets, liabilities and results of operations ceased to be consolidated. At the same time, a loss on disposal was recorded in non-interest expenses of the Consolidated Statement of Income in the International segment. In addition, the Bank recorded an income tax recovery related to the disposal of its investment in Scotiabank Quilmes.

In fiscal 2003, the Bank continued to reduce its remaining cross-border Argentine risk through loan sales and repayments, resulting in a $64 million recovery of the specific provision for credit losses for these loans. As well, the Bank recorded a net loss on its Argentine securities of $19 million and $31 million charge for a settlement with creditors of Scotiabank Quilmes.

Information on the provision and charges (recovery) recorded in 2003 and 2002 against the Bank's operations in Scotiabank Quilmes and against cross-border Argentine risk assets is provided in the table below:

($ millions)	2003	2002
Provision for (recovery of) credit losses	$ (64)	$ 454
Other income:		
Loss on securities	19	20
Trading revenues	—	(4)
Other[1]	—	87
Non-interest expenses:		
Loss on disposal of subsidiary operations	31	237[2]
Total provision and charges (recovery) before income taxes	(14)	794
Provision for (recovery of) income taxes	3	(254)
Total provision and charges (recovery)	$ (11)	$ 540

(1) Reflects the loss from pesofication (impact of converting U.S. dollar-denominated assets and liabilities to Argentine pesos at different and non-market rates, as mandated by the Argentine government).

(2) Loss on disposal of subsidiary operations in 2002 is net of a $95 foreign exchange gain, which was transferred from cumulative foreign currency translation in the Consolidated Balance Sheet. This foreign exchange gain primarily offsets the foreign exchange loss from the devaluation of the Argentine peso on the allowance for credit losses established in the first quarter of 2002.

In fiscal 2004, there have been some legal actions launched against the Bank in connection with certain obligations of Scotiabank Quilmes. 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 upon current knowledge, management does not believe that liabilities, if any, arising from these actions will have a material adverse effect on the Bank's consolidated financial position.

24. Acquisitions

a) Grupo Financiero Scotiabank Inverlat, Mexico

On April 30, 2003, the Bank increased its ownership in Grupo Financiero Scotiabank Inverlat to 91%. The purchase price for the additional 36% was $465 million, which was paid in cash. This transaction resulted in increases in goodwill of $62 million, other intangible assets of $16 million, and net positive fair value adjustments to other assets of $12 million, as well as a reduction in non-controlling interest in subsidiaries of $375 million.

On March 23, 2004, the Bank paid an additional $59 million in cash to increase its ownership in Inverlat to 97%. No goodwill or other intangible assets were recognized on this transaction.

b) Dominican Republic

In the third quarter of 2003, the Bank entered into an agreement to acquire or lease 39 branch locations from Banco Intercontinental in the Dominican Republic for $32 million, with the option to purchase selected credit card, personal and commercial loans. In the fourth quarter of that same year, the Bank acquired part of their credit card portfolio for $20 million.

25. Sale of business

Effective October 31, 2002, the Bank sold its merchant acquirer and smart-card point-of-sale business to Paymentech Canada. The sale included debit and credit card payment services and smart-card programs offered to merchants across Canada. As a result of this transaction, a gain of $99 million, net of associated expenses, was recorded in 2002 in other income — other in the Consolidated Statement of Income. In 2004, $5 million (2003 — $7 million) of additional sales consideration was earned by the Bank. Additional revenue may be earned in future periods.

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26. 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 and shareholders' equity

	Net income			Shareholders' equity		
For the year ended October 31 ($ millions)	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Net income and shareholders' equity based on Canadian GAAP	**$ 2,931**	$ 2,477	$ 1,797	**$15,235**	$14,614	$14,777
Employee future benefits (a)	**1**	31	3	**5**	(19)	(25)
Restructuring costs (b)	**(23)**	(4)	(9)	**3**	26	30
Transfers of loans (c)	**(21)**	(32)	(55)	**26**	47	79
Derivative instruments and hedging activities (d)	**60**	248	(347)	**(32)**	(88)	(253)
Unrealized gains (losses) on securities reclassified as trading (d)	**55**	7	(24)	**17**	(21)	(28)
Conversion of loans into debt securities (e)	**39**	1	18	**(39)**	(32)	14
Available-for-sale securities (e)	**81**	95	(229)	**1,278**	925	151
Computer software (f)	**(29)**	14	22	**81**	110	96
Non-controlling interest in net income of subsidiaries (g)	**(16)**	(16)	(16)	**(250)**	(250)	(250)
Goodwill and other intangibles (h)	**—**	—	(76)	**—**	—	—
Other	**10**	(13)	—	**(1)**	(11)	—
Tax effect of above differences	**(42)**	(74)	203	**(462)**	(298)	(13)
Future income taxes (k)	**—**	13	(13)	**—**	—	(13)
Net income and shareholders' equity based on U.S. GAAP	**$ 3,046**	$ 2,747	$ 1,274	**$15,861**	$15,003	$14,565
Preferred dividends paid and other	**(30)**	(62)	(96)			
Net income available to common shareholders based on U.S. GAAP	**$ 3,016**	$ 2,685	$ 1,178			
Earnings per common share based on U.S. GAAP (in dollars)[1][2]:						
Basic	**$ 2.99**	$ 2.66	$ 1.17			
Diluted	**$ 2.94**	$ 2.62	$ 1.15			

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

(2) Earnings per share calculations are based on full dollar and share amounts.

(a) Employee future benefits

Canadian and U.S. accounting standards for employee future benefits are substantially consistent; however, 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 those standards, and differences in the treatment of the pension valuation allowance.

Canadian GAAP requires recognition of a pension valuation allowance for any excess of the prepaid benefit expense over the expected future benefit. Changes in the pension valuation allowance are recognized in the Consolidated Statement of Income. U.S. GAAP does not permit recognition of a pension valuation allowance.

U.S. GAAP requires the excess of any unfunded accumulated benefit obligation (with certain other adjustments) to be reflected as an additional minimum pension liability in the U.S. GAAP Consolidated Balance Sheet with an offsetting adjustment to intangible assets to the extent of unrecognized prior service costs, with the remainder recorded in other comprehensive income.

(b) Restructuring costs

Under Canadian GAAP, restructuring costs incurred for activities initiated prior to April 1, 2003, were accrued as liabilities provided that a restructuring plan detailing all major actions to be taken had been approved by an appropriate level of management, and significant changes to the plan were not likely. Under U.S. GAAP, for activities initiated prior to January 1, 2003, additional criteria were required to have been met prior to accrual, including that certain restructuring costs be incurred within one year from the date of approval of the restructuring plan; the accruals recorded under Canadian GAAP for certain planned restructuring costs not incurred within the one-year time limit are reversed under U.S. GAAP and the costs are expensed as incurred. For restructuring costs incurred for activities initiated after March 31, 2003, Canadian and U.S. GAAP are consistent.

(c) Transfers of loans through securitizations

Effective July 1, 2001, the Bank adopted a new Canadian accounting guideline for transfers of loans on a prospective basis. This guideline is consistent with the U.S. standard for transfers of loans adopted on April 1, 2001.

Prior to the adoption of the new Canadian guideline, transfers of loans were treated as sales under Canadian GAAP when the significant risks and rewards of ownership were transferred. Gains on transfers of loans were recognized immediately, unless there was recourse to the Bank in excess of expected losses, in which case the gains were considered unrealized and deferred until they were collected in cash and there was no recourse to that cash. Under U.S. GAAP, gains on transfers of loans that qualify as sales are recognized in income at the time of sale. There will continue to be differences in Canadian and U.S.

GAAP income until the deferred gains related to assets securitized prior to July 1, 2001 have all been recognized in Canadian GAAP income.

Prior to the harmonization of Canadian and U.S. GAAP, some transfers of assets did not qualify for sale accounting under U.S. GAAP. These transfers have been accounted for as secured lending arrangements under U.S. GAAP. This results in the assets remaining on the U.S. GAAP Consolidated Balance Sheet and in the net spread being recognized in U.S. GAAP income over the term of the loans rather than immediate recognition of a gain.

(d) Derivative instruments and hedging activities

Under Canadian GAAP, the Bank accounts for derivative instruments held for asset/liability management purposes on an accrual basis if they qualify for hedge accounting. Derivative instruments held for asset/liability management purposes which do not meet hedge accounting criteria and those held for trading purposes are accounted for at fair value with changes in fair value recognized in income.

The Bank adopted a new U.S. accounting standard on accounting for derivative instruments and hedging activities effective November 1, 2000. This standard requires all derivative instruments to be recognized at fair value in the Consolidated Balance Sheet. U.S. GAAP restricts the types of transactions that qualify for hedge accounting and contains guidance on measuring hedge effectiveness. The change in fair value of a derivative instrument designated as a fair value hedge is offset in U.S. GAAP income against the change in the fair value of the hedged item relating to the hedged risk. The change in fair value of a derivative instrument designated as a cash flow hedge is recorded in other comprehensive income until the revenues or expenses relating to the hedged item are recorded in income. Hedge ineffectiveness and changes in the fair value of derivative instruments that do not qualify as hedges are recognized in income as they arise. The Bank has recorded an after-tax loss of $17 million (2003 — after-tax loss of $19 million; 2002 — after-tax loss of $7 million), which represents the ineffective portion of fair value hedges. Prior to 2004, certain foreign currency funding transactions that were designated as hedges for Canadian GAAP did not meet the strict U.S. GAAP hedge criteria. Therefore, the change in the fair value of these transactions has been recognized in U.S. GAAP income.

U.S. GAAP also requires derivative instruments embedded in financial instruments that are not clearly and closely related to their host instrument to be separated and recorded at their fair value. If an embedded derivative cannot be separated, the entire financial instrument is recorded at fair value. Certain securities with embedded derivatives were reclassified from available-for-sale to trading securities. Under Canadian GAAP, these securities are classified as investment securities.

The Bank has fair value hedges of interest rate risk relating to its subordinated debentures and available-for-sale securities in addition to cash flow hedges of its variable rate instruments. The Bank expects to reclassify $10 million (2003 — $(11) million; 2002 — $(17) million) of after-tax gains/(losses) from accumulated other comprehensive income to earnings as a result of its cash flow hedges within the next twelve months. As at October 31, 2004, 2003 and 2002, the maximum term of cash flow hedges was less than 10 years, 10 years and 5 years, respectively.

On November 21, 2002, the Bank adopted new U.S. GAAP guidance on accounting for derivative contracts held for trading purposes. Under the new guidance, the unrealized gain or loss arising at the inception of a derivative transaction is recognized in U.S. GAAP income only when the fair value of the derivative is obtained from a quoted market price, supported by comparison to other observable market transactions, or based upon a valuation technique incorporating observable market data. The adoption of the new guidance did not have a material impact on the U.S. GAAP results of the Bank.

(e) Securities

U.S. GAAP requires securities to be classified as either trading, held to maturity or available for sale. The Bank has classified all investment securities as available for sale under U.S. GAAP (other than those reclassified to trading on adoption of the U.S. accounting standard on derivative instruments and hedging activities as discussed in (d) above), which are carried on the Consolidated Balance Sheet at their fair value. Other-than-temporary declines in the fair value of available-for-sale securities are recognized in U.S. GAAP income based on market values; declines in fair values are generally presumed to be other than temporary if they have persisted over several quarters. Both investment securities and trading securities are required to be accounted for on a trade date basis in the Consolidated Statement of Income and Consolidated Balance Sheet.

Under U.S. GAAP, unrealized gains and losses on available-for-sale securities, net of related income taxes, are recorded in other comprehensive income until realized, except for the unrealized gains and losses on hedged available-for-sale securities, which are recorded in U.S. GAAP income.

Under Canadian GAAP, securities are classified as either trading or investment. The Bank carries investment securities at amortized cost. Other-than-temporary declines in the value of investment securities are recorded in income based on net realizable values; declines in fair values are generally presumed to be other than temporary if conditions indicating impairment have persisted for a more prolonged period of time than under U.S. GAAP. Investment securities and trading securities are accounted for on a settlement date basis in the Consolidated Balance Sheet and on a trade date basis in the Consolidated Statement of Income.

Under Canadian GAAP, debt securities acquired in a loan restructuring prior to May 1, 2003 were recorded at net book value. Under U.S. GAAP, the debt securities are recorded at their fair value with the difference between the carrying value of the loans and the fair value of the debt securities acquired recorded in income. For debt securities acquired in a loan restructuring after April 30, 2003, Canadian and U.S. GAAP are consistent.

(f) Computer software

U.S. GAAP requires qualifying software costs to be capitalized and depreciated over the useful life of the software. Prior to November 1, 2003, these costs were expensed as incurred under Canadian GAAP. For software costs incurred after November 1, 2003, Canadian and U.S. GAAP are consistent.

(g) Non-controlling interest in net income of subsidiaries

On the U.S. GAAP Consolidated Balance Sheet, the preferred shares issued by Scotia Mortgage Investment Corporation, a wholly-owned

subsidiary of the Bank, are presented as non-controlling interests. The net income applicable to these non-controlling interests is reflected as a reduction of U.S. GAAP income. Under Canadian GAAP, the Bank includes these preferred shares within the total preferred shares of the Bank in the Consolidated Balance Sheet and the related dividends are reflected as a reduction of net income available to common shareholders.

(h) Goodwill and other intangible assets

Effective November 1, 2001, the Bank adopted the new Canadian and U.S. accounting standards for goodwill and other intangible assets without restatement of prior periods. These standards are substantially consistent except that any transitional impairment charge on the date of adoption is recognized as a charge to opening retained earnings under Canadian GAAP and as a cumulative adjustment to income under U.S. GAAP. On adoption of the new standard, a charge to U.S. GAAP income of $76 million was recognized ($0.07 per share, basic and diluted).

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(i) Guarantees

Effective February 2003, the Bank adopted a Canadian guideline on disclosure of guarantees, as set out in Note 20. The U.S. standard is consistent with this Canadian guideline, except that it also requires recognition of a liability for the fair value of the obligation assumed at the inception of the arrangement for guarantees issued or modified after December 31, 2002.

The fair value under U.S. GAAP for guarantees at October 31, 2004 amounted to $93 million (2003 — $78 million). This amount excludes derivative instruments meeting the definition of guarantees, the fair values of which are included in the amounts disclosed in Note 22.

(j) Variable interest entities (VIEs)

In January 2003, a new U.S. standard on the accounting for VIEs was issued and revised in December 2003. This standard is substantially consistent with the new Canadian guideline. Under U.S. GAAP, VIEs created after January 31, 2003 are required to be consolidated where the Bank is the primary beneficiary; there is no material measurement difference between Canadian and U.S. GAAP affecting the consolidated financial statements as a result of this requirement. For the remaining VIEs, the accounting on a U.S. GAAP basis is effective October 31, 2004. The impact on the Consolidated Balance Sheet of adopting this U.S. GAAP standard is the same as the expected impact under Canadian GAAP disclosed in Note 2. Under Canadian GAAP, VIEs are required to be consolidated effective November 1, 2004.

(k) Corporate income taxes

Canadian and U.S. accounting standards for corporate income taxes are substantially consistent, except that the effect of changes in income tax rates are recorded under U.S. GAAP when the rate changes are enacted in law, whereas under Canadian GAAP such amounts are recorded when the changes are considered to be substantively enacted.

(l) 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.

(m) Comprehensive income

U.S. GAAP requires a statement of comprehensive income to be included in the financial statements. Comprehensive income includes net income and all changes in equity, net of taxes, for the period except those resulting from investments by and distributions to shareholders. Comprehensive income also includes the foreign currency translation adjustments arising from the consolidation of subsidiaries where the functional currency is other than the reporting currency. Under Canadian GAAP, there is no current requirement to present a statement of comprehensive income and the foreign currency translation adjustments pertaining to net investments in foreign subsidiaries are presented in cumulative foreign currency translation in the Consolidated Balance Sheet.

Consolidated statement of comprehensive income

For the year ended October 31 ($ millions)	2004	2003	2002
Net income based on U.S. GAAP	$ 3,046	$ 2,747	$ 1,274
Other comprehensive income, net of income taxes:			
Change in unrealized gains and losses on available-for-sale securities, net of hedging activities [1]	101	434	(229)
Change in unrealized foreign currency translation gains and losses [2]	(705)	(1,295)	(137)[3]
Change in gains and losses on derivative instruments designated as cash flow hedges [4]	(8)	24	28
Change in additional minimum pension liability [5]	16	(17)	(11)
Total other comprehensive income	$ (596)	$ (854)	$ (349)
Total comprehensive income	$ 2,450	$ 1,893	$ 925

Accumulated other comprehensive income

For the year ended October 31 ($ millions)	2004	2003	2002
Unrealized gains and losses on available-for-sale securities, net of hedging activities	$ 1,071	$ 970	$ 536
Unrealized foreign currency translation gains and losses	(1,897)	(1,192)	103
Derivative instruments	(26)	(18)	(42)
Additional minimum pension liability	(12)	(28)	(11)
Total accumulated other comprehensive income	$ (864)	$ (268)	$ 586

(1) Net of income tax expense of $115 (2003 — expense of $199; 2002 — benefit of $121).

(2) Net of income tax benefit of $1 (2003 — expense of $25; 2002 — expense of $5).

(3) Refer to footnotes (2) and (3) of the Consolidated Statement of Changes in Shareholders' Equity.

(4) Net of income tax expense of $1 (2003 — expense of $13; 2002 — expense of $20).

(5) Net of income tax expense of $7 (2003 — benefit of $8; 2002 — benefit of $5).

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Stock-based compensation — Pro-forma disclosures

For U.S. GAAP purposes, the Bank accounted for stock options issued prior to November 1, 2002 using the intrinsic-value-based method, which did not result in a compensation expense to the Bank. Effective November 1, 2002, the Bank commenced expensing the fair value of stock options on a prospective basis. All stock-based compensation awards are accounted for consistently under both Canadian and U.S. GAAP subsequent to that date.

U.S. GAAP requires pro-forma disclosure of net income and earnings per share as if the fair-value-based method had been applied retroactively, as detailed below:

For the year ended October 31 ($ millions)	**2004**	**2003**	**2002**
Net income, as reported	**$ 3,046**	$ 2,747	$ 1,274
Pro-forma fair value of stock options not previously expensed	**21**	32	58
Pro-forma net income	**$ 3,025**	$ 2,715	$ 1,216
Earnings per share[1][2]:			
Basic, as reported	**$ 2.99**	$ 2.66	$ 1.17
Basic, pro-forma	**$ 2.97**	$ 2.63	$ 1.11
Diluted, as reported	**$ 2.94**	$ 2.62	$ 1.15
Diluted, pro-forma	**$ 2.92**	$ 2.59	$ 1.09

In determining the pro-forma disclosures above, the fair value of options granted is estimated as at the date of grant using an option pricing model. The fair value is then amortized over the vesting period. As a result of the retroactive attachment of Tandem SARs to the 2002 employee stock option grants, the 2003 and 2004 pro-forma disclosures do not reflect a fair value expense for these employee stock options. The fair value of the fiscal 2002 employee stock option grants was $7.06[1]. Significant assumptions for 2002, were as follows: (i) risk-free interest rate of 5.2%; (ii) expected option life of 6 years; (iii) expected volatility of 30%; and (iv) expected dividends of 2.7%.

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

(2) Earnings per share calculations are based on full dollar and share amounts.

Condensed consolidated balance sheet

	2004			**2003**		
As at October 31 ($ millions)	**Canadian GAAP**	**Adjustments**	**U.S. GAAP**	**Canadian GAAP**	**Adjustments**	**U.S. GAAP**
Assets						
Cash resources	**$ 17,155**	**$ 94j**	**$ 17,249**	$ 20,581	$ —	$ 20,581
Securities						
Investment/Available-for-sale	**15,717**	**5,689c,d,e,j**	**21,406**	20,293	277c,d,e	20,570
Trading	**43,056**	**79d,e**	**43,135**	42,899	674d,e	43,573
Loans	**171,768**	**3,877c,j**	**175,645**	171,667	1,630c	173,297
Derivative instruments	**14,198**	**1,456d,j**	**15,654**	15,308	1,323d	16,631
Other	**17,318**	**2,129(1)**	**19,447**	15,144	3,214(5)	18,358
	$279,212	**$13,324**	**$292,536**	$285,892	$ 7,118	$293,010
Liabilities and shareholders' equity						
Liabilities						
Deposits	**$195,196**	**$ 2,736c,d,j**	**$197,932**	$192,672	$ 1,693c,d	$194,365
Derivative instruments	**14,054**	**2,213d,j**	**16,267**	14,758	2,318d	17,076
Non-controlling interest in subsidiaries	**2,280**	**(1,250)g,j**	**1,030**	2,326	250g	2,576
Other	**49,832**	**8,933(2)**	**58,765**	58,861	2,383(6)	61,244
Subordinated debentures	**2,615**	**66d**	**2,681**	2,661	85d	2,746
	$263,977	**$12,698**	**$276,675**	$271,278	$ 6,729	$278,007
Shareholders' equity						
Capital stock						
Preferred shares	**$ 550**	**$ (250)g**	**$ 300**	$ 800	$ (250)g	$ 550
Common shares	**3,229**	**—**	**3,229**	3,141	—	3,141
Retained earnings	**13,239**	**(43)(3)**	**13,196**	11,747	(167)(7)	11,580
Cumulative foreign currency translation	**(1,783)**	**1,783m**	**—**	(1,074)	1,074m	—
Accumulated other comprehensive income	**—**	**(864)(4)**	**(864)**	—	(268)(8)	(268)
	$ 15,235	**$ 626**	**$ 15,861**	$ 14,614	$ 389	$ 15,003
	$279,212	**$13,324**	**$292,536**	$285,892	$ 7,118	$293,010

Note references refer to GAAP differences described above.

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

(2) Refer to a, b, c, d, e, i, j, l.

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

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

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

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

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

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

Principal Subsidiaries[1]

As at October 31, 2004 ($ millions)	Principal office	Carrying value of shares
Canadian		
BNS Capital Trust	Toronto, Ontario	$ 125
BNS Investments Inc.	Toronto, Ontario	$ 6,725
Montreal Trust Company of Canada	Montreal, Quebec	
MontroServices Corporation	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
National Trustco Inc.	Toronto, Ontario	$ 517
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Toronto, Ontario	
RoyNat Inc.	Toronto, Ontario	$ 47
Scotia Capital Inc.	Toronto, Ontario	$ 191
Scotia Cassels Investment Counsel Limited	Toronto, Ontario	$ 13
Scotia Life Insurance Company	Toronto, Ontario	$ 54
Scotia Mortgage Corporation	Toronto, Ontario	$ 202
Scotia Mortgage Investment Corporation	St. John's, Newfoundland	$ 68
Scotia Securities Inc.	Toronto, Ontario	$ 306
Scotiabank Capital Trust	Toronto, Ontario	$ 10
International		
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	$ 131
The Bank of Nova Scotia International Limited	Nassau, Bahamas	$ 6,592
BNS International (Barbados) Limited	Warrens, Barbados	
The Bank of Nova Scotia Asia Limited	Singapore	
The Bank of Nova Scotia Trust Company (Bahamas) Limited	Nassau, Bahamas	
Scotiabank & Trust (Cayman) Limited	Grand Cayman, Cayman Islands	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotiabank (Bahamas) Limited	Nassau, Bahamas	
Scotiabank (British Virgin Islands) Limited	Road Town, Tortola, B.V.I.	
Scotiabank (Hong Kong) Limited	Hong Kong, China	
Scotiabank (Ireland) Limited	Dublin, Ireland	
The Bank of Nova Scotia Jamaica Limited (70%)	Kingston, Jamaica	$ 241
Grupo Financiero Scotiabank Inverlat, S.A. de C.V. (97%)	Mexico, D.F., Mexico	$ 1,051
Nova Scotia Inversiones Limitada	Santiago, Chile	$ 316
Scotiabank Sud Americano, S.A. (98%)	Santiago, Chile	
Scotia Capital (USA) Inc.	New York, New York	(2)
Scotia Holdings (US) Inc.	Atlanta, Georgia	(3)
The Bank of Nova Scotia Trust Company of New York	New York, New York	
Scotiabanc Inc.	Atlanta, Georgia	
Scotia International Limited	Nassau, Bahamas	$ 379
Corporacion Mercaban de Costa Rica, S.A.	San Jose, Costa Rica	
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	$ 221
Scotiabank El Salvador, S.A.	San Salvador, El Salvador	$ 57
Scotiabank Europe plc	London, England	$ 1,994
Scotiabank Trinidad & Tobago Limited (48%) [4]	Port of Spain, Trinidad	$ 93
Scotia Capital (Europe) Limited	London, England	$ 13

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

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

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

(4) Associated corporation effectively controlled by the Bank.

Exhibit 5

POLICIES & PROCEDURES FOR THE PRE-APPROVAL OF SERVICES PERFORMED BY THE EXTERNAL AUDITORS

1. Objective

The objective of these Policies & Procedures is to ensure that the independence of the External Auditors is not compromised through engaging them for non-audit services. Consequently, these Policies and Procedures:

- Specify the methods by which the Audit Committee may pre-approve the provision of audit services by any registered public accounting firm to the Bank and its subsidiaries;
- Specify the methods by which the Audit Committee may pre-approve the provision of audit-related, tax and other non-audit services to the Bank and its subsidiaries by the Bank's External Auditors and their affiliates, such that it does not impair the independence of the External Auditors; and
- Ensure that the Audit Committee's responsibilities under applicable law are not delegated to management.

2. Required Pre-Approval Policies and Procedures

- The Audit Committee shall pre-approve:
  - Audit services
    - All engagements of the External Auditors.
    - All engagements of any other registered public accounting firm.
  - Audit-related, tax and other non-audit services
    - All engagements of the External Auditors.
    - Note: Pre-approval is not required for audit-related, tax and other non-audit services provided by any other registered public accounting firm.
- The pre-approval is evidenced by the approval of this Policy by the Audit Committee.
- These pre-approval policies and procedures are effective for:

- The Bank.

- Subsidiaries of the Bank. For the purposes of these Policies and Procedures, the term “subsidiary” shall be defined as (a) any entity consolidated with the Bank, excluding variable interest entities; or (b) any entity of which the Bank has control in fact.

- Temporary investments held by the Bank or its subsidiaries that would otherwise be consolidated.

The Audit Committee will not, as a general rule, pre-approve a service more than one year prior to the time at which it is anticipated that the External Auditors will be engaged to provide the service.

These Policies and Procedures do not represent, and should not be interpreted as, a delegation of the Audit Committee’s responsibilities to management.

2.1 Pre-approved services

- The attached Appendix 1 contains a list of specific audit, audit-related, tax and other non-audit services that are consistent with the independence requirements for auditors contained in the Sarbanes-Oxley Act and Canadian independence standards for auditors.

- Accordingly, services described in Appendix 1 are to be considered pre-approved by the Audit Committee and management may engage any registered public accounting firm for audit services, or the External Auditors for specific engagements that are within the list of the pre-approved services contained in Appendix 1. It is the responsibility of management to ensure that a particular service is covered by the pre-approved range of services, having received acknowledgement from the External Auditors that the services are within the list of the pre-approved services. If it is not clear to management whether a service is in the pre-approved list, then specific pre-approval must be obtained.

2.2 Specific approval requirements for audit, audit-related, tax and other non-audit services not included in the list of pre-approved services

- To the extent that the proposed service to be provided by the External Auditors is not contained in the listing of pre-approved services, the Audit Committee must specifically pre-approve (i.e., either directly or through delegated authority as provided below) the service before the External Auditors are engaged to provide such service as follows:

  - The Audit Committee may designate one or more of its members who are “independent” (“Audit Committee designate”), within the meanings of applicable law and the rules or policies of a securities commission having jurisdiction, to pre-approve any audit, audit-related, tax, or other non-audit services to be provided by the External Auditors, where the expected fees are up to $500,000 per engagement.

— The Audit Committee must specifically pre-approve all audit, audit-related, tax and other non-audit services with expected fees in excess of $500,000 per engagement.

3. Engagement Letter

All services to be provided by the External Auditors shall be provided pursuant to an engagement letter that satisfies the following requirements.

- Be in writing and signed by the External Auditor or one of its authorized representatives;
- Set forth the particular services to be provided by the External Auditor;
- Set forth the period in which the services will be provided;
- Set forth the estimated total fees and expenses to be paid to the External Auditor for the service; and
- Include a confirmation by the External Auditor that such services are not within a category of services, the provision of which would impair the auditor's independence under applicable law, Canadian and U.S. generally accepted auditing standards, and these Policies and Procedures.

The Unit of the Bank that engages the External Auditors must obtain the engagement letter before commencing the engagement and retain the engagement letter on file.

4. Prohibited Services

Under current rules, the External Auditors are prohibited from providing certain non-audit services. The overarching principles upon which these rules are based are that the auditor cannot (1) audit his or her own work; (2) function in the role of management; or (3) serve in an advocacy role for the Bank.

A member of the External Auditors' firms or a network firm shall not make management decisions or perform management functions for the Bank or any related entity of the Bank. Activities that would constitute a management decision or function include:

a) authorizing, approving, executing or consummating a transaction;

b) having or exercising authority on behalf of the Bank;

c) determining which recommendations of the External Auditors should be implemented; or

d) reporting in a management role to those charged with governance of the Bank.

The services outlined in Appendix 2 are prohibited, as there is an overriding presumption that the results of the services would be subject to audit procedures during the audit of the consolidated financial statements. In certain rare circumstances, specific services, as outlined in the auditor independence rules, may be allowable if it is clearly shown that the results of these services will not be subject to audit procedures during the audit of the consolidated financial statements.

5. Reporting to the Audit Committee

Each quarter, the Audit Committee designate shall provide the Audit Committee with a list of new services, including a description, to be performed by the External Auditors which were not included in the list of pre-approved services, but which have been specifically approved by the designate during the quarter.

Annually, the Audit Committee will review the nature of services provided by the Bank's External Auditors, as well as a summary of all fees for:

a) Audit services;

b) Audit-related services;

c) Taxation services (non-audit services); and

d) Other non-audit services.

All out-of-pocket costs billed by the audit firm in connection with the above services are to be included in with the service to which it relates.

This review will be performed prior to the audit opinion being issued at year-end by the External Auditors. At that time, the External Auditors will provide the Audit Committee with a letter confirming their independence.

6. External Disclosure

Annually, the Bank will disclose, as required by applicable regulations, the four previously mentioned categories of fees paid to the External Auditors, for the two most recent fiscal years.

In addition, a description of services provided (other than audit services) and disclosure of these Policies and Procedures will be made in the Bank's periodic filings as required by applicable law.

7. Effective Date and Previous Approvals

These Policies and Procedures, amended March 1, 2004, are effective for all new engagements with the External Auditors entered into on or after this date, and do not rescind any approvals given prior to the effective date.

8. Annual Review

The Audit Committee shall approve these Policies and Procedures on an annual basis, or more frequently if required.

APPENDIX 1: PRE-APPROVED SERVICES THAT CAN BE PROVIDED BY THE EXTERNAL AUDITORS

The Audit Committee pre-approves the engagement of the External Auditors to perform the services described below:

A) Audit Services

- Audits of the Bank's consolidated financial statements, those of its subsidiaries, and temporary investments held by the Bank or its subsidiaries that would otherwise be consolidated, as well as tax services necessary for the audit;
- Audits of acquired business' financial statements as required under applicable securities legislation;
- Reviews of the quarterly consolidated financial statements of the Bank and its subsidiaries;
- Services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies (such as the Securities and Exchange Commission (SEC) and Ontario Securities Commission (OSC)) or other documents issued in connection with securities offerings (e.g., comfort letters and consent letters) and assistance in responding to comment letters from securities regulatory bodies;
- Special attest services as required by regulation or statute;
- Attestation services in relation to management reports on internal controls required by regulators;
- Consultations with the Bank's management as to the accounting or disclosure treatment of transactions or events reflected in the financial statements and/or the actual or potential impact of final or proposed rules, standards or interpretations by the securities regulatory authorities, accounting standard setting bodies (such as the Financial Accounting Standards Board (FASB) or Canadian Institute of Chartered Accountants (CICA)), or other regulatory or standard setting bodies on transactions reflected in the consolidated financial statements [Note: The Bank must perform its own analysis and come to its own conclusions regarding the accounting treatment of a transaction. The External Auditors may opine, review and comment on the Bank's analysis, but may not prepare, structure or determine the accounting treatment for a transaction on the Bank's behalf].
- Review of work performed by Bank management or a third-party valuation specialist in determining the required amounts recorded in the financial statements.

B) Audit-Related Services

- Consultation as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of new accounting standards on proposed transactions that are not reflected in the consolidated financial statements [Note: The Bank must perform its own analysis and come to its own conclusions regarding the accounting treatment of a proposed transaction. The External Auditors may opine, review and comment on the Bank's analysis, but may not prepare, structure or determine the accounting treatment for a transaction on the Bank's behalf];

- Presentations or training on accounting and financial reporting, taxation, auditing, securities or other regulatory matters;
- Financial due diligence services in connection with potential acquisitions/dispositions, including (i) assistance with due diligence relating to financial accounting, generally accepted accounting principle differences, taxation, financial information systems, internal controls, compensation and benefits; (ii) assistance in analysis of historical operating results, cash flows and financial position;
- The audit of the financial statements of the Bank's various employee benefit plans;
- Advice and documentation assistance with respect to internal controls over financial reporting and disclosure controls and procedures of the Bank, other than that which is a part of the financial statement audit;
- Evaluate and make recommendations on internal control matters related to management's design and installation of a system or process, other than as part of the financial statement audit;
- Special attest services not required by statute or regulation, but requested by clients or customers of the Bank.

C) Taxation Services (non-audit services)

- Tax compliance services including:
    - Preparation and/or assistance with the preparation of original and amended tax returns and related schedules, as long as the information does not form the basis of management's determination of the tax provision;
    - Preparation and/or assistance with the preparation of employee tax returns under the Bank's expatriate tax services program and senior executive management tax returns;
    - Assistance with the preparation and submission of special reports to government bodies regarding compliance with agreements, statements and regulations;
    - Assistance in filing for the recovery of taxes, including stamp duty;
    - Assistance in completing routine tax schedules and calculations, including FAPI and surplus calculations and reporting for foreign operations; and
    - Assistance in preparing investment tax credit claims (such as Scientific Research & Experimental Development claims) and amended tax returns.

    Note: All tax treatment decisions must be the responsibility of management or the taxpayer.
- Tax planning and advisory services relating to common forms of domestic and international taxation (i.e., income tax, capital tax, commodity and sales taxes and customs duties including GST and VAT), including:
    - Advice and assistance for personal tax issues for senior executive management and the Bank's employees under the expatriate tax services program;
    - Advice and assistance with respect to cross-border/transfer pricing issues;

- Advice in relation to the Bank's expatriate tax program, including advice on the impact of changes in local tax laws and consequences of changes in compensation programs or practices;

- Assistance with questions regarding filings, assessments, proposed reassessments, tax audits and appeals (eg. tax services involving IRS examinations, tax appeals, ruling requests, etc. are permitted services);

- Assistance in interpreting and understanding existing and proposed domestic and international legislation, and the administrative policies followed by various jurisdictions in administering the law, including assisting in applying for and requesting advance tax rulings or technical interpretations;

- Assistance in interpreting and understanding the impact of domestic and foreign judicial tax decisions and the potential impact;

- Assistance in understanding the tax implications of structured transactions, derivative products, financial instruments and other tax planning initiatives and the assessment of the associated potential risks;

- Assistance and advice on routine planning and structuring matters, including the potential tax impact of acquiring or disposing of subsidiaries; of investing in or acquiring partnerships, trusts and various special purpose vehicles; of establishing, closing, or converting branch operations to subsidiaries; and assistance in the development and execution of other tax planning and reorganization steps relating to existing operations; and

- Advice in relation to the implications of the routine financing of domestic and foreign operations, including the tax implications of using debt or equity in structuring such financing, the potential impact of non-resident withholding tax and the taxation of the repatriation of funds as a return of capital, a payment of a dividend, or a payment of interest.

D) Other Non-Audit Services

(i) Foreign language translation services. This includes the translation of the following:

- The annual report, including the consolidated financial statements and management's discussion and analysis;

- Annual financial statement summaries published in foreign newspapers;

- Interim consolidated financial statements, quarterly reports and press releases to shareholders;

- Financial information included in the annual information form, prospectuses and other offering documents;

- Newsletters and other press releases related to the payment of dividends; and

- Translation services to the Bank so as to enable the auditor to issue letters to various securities regulators concerning the conformity of the translation of the English language version of various financial reports, including the

consolidated financial statements and management's discussion and analysis, as part of the Bank's securities filings or under prospectus requirements.

(ii) Business/corporate recovery services. This includes services where the External Auditors:

- Act as the Bank's privately appointed receivers or receivers and managers pursuant to the terms of a security instrument held by the Bank, provided that the service does not include activities where the External Auditors perform a management function on behalf of the Bank or provide prohibited expert services.

- Conduct a business review or viability assessment of a debtor on behalf of the Bank pursuant to the terms of and engagement letter entered into with the Bank and agreed to by the debtor.

- Act as monitor of the debtor under private appointment by the Bank.

(iii) Appraisal or valuation services

- Provide valuation reports or analyses for non-financial reporting purposes, including transfer pricing studies, compensation valuations, cost segregation studies or tax-only valuations;

(iv) Actuarial services

- Actuarial services for non-financial reporting purposes, including advice and assistance in understanding actuarial models, methods and assumptions.

(v) Transaction services

- Provide commercial due diligence services (other than financial due diligence services), including those in connection with market analyses, potential divestitures, acquisitions, lending or financing transactions. Such services include reviews of: (a) trading patterns; (b) financial projections, markets and products; (c) customer base, competitive positions; and (d) asset management and cash flows;

- Perform sensitivity and risk analyses for a target of the Bank, a proposed debtor of the Bank, or a subsidiary of the Bank, where the assumptions are formulated by management of the Bank or its subsidiaries or third-party experts;

- Provide a review of prospective financial information prepared by management of the Bank, a target, a debtor or third-party experts; and

- Provide advisory services in connection with post acquisition integration, provided the services are unrelated to the Bank's financial statements or accounting records.

(vi) Information and training

Subscription or licensing fees for publications / electronic information services offered by the External Auditors such as technical research databases, notification services, including the licensing of the following: PwC's Comperio, Tax News Network, OSFI-54, P&C-1, eMaxiMin, and TeamMate. [Note: Software packages developed and purchased from the External Auditors for preparation of tax returns and related schedules cannot be used to generate some or all of the information needed to prepare the tax accrual and disclosures related to income taxes that would appear in the Bank's financial statements.]

(vii) Industry salary surveys

(viii) Operational advisory and risk management services

- Review, advice, and assistance with respect to operational risks, including enterprise risk management reviews and advice;
- Review, advice, and assistance with respect to the documentation, analysis, and improvement of operational business processes;
- Review, advice, and assistance with respect to managing the risks associated with determining and implementing the sourcing of business and technology services (e.g. in-sourcing, out-sourcing, co-sourcing, shared services, and public-private partnerships);
- Review and advice with respect to resolving reconciliation problems in financial information, information systems, and related processes.

(ix) Regulatory and compliance services

- Review, advice, and assistance with respect to regulatory risks and compliance with specific legislation or regulations, including privacy legislation and related regulations.
- Anti-money laundering policy reviews;
- Anti-money laundering training;
- Anti-money laundering compliance studies.

APPENDIX 2: PROHIBITED SERVICES THAT CANNOT BE PROVIDED

BY THE EXTERNAL AUDITORS

The following services are prohibited and cannot be provided by the External Auditors:

- Bookkeeping or other services related to the accounting records or financial statements. Examples of prohibited bookkeeping services include:
  - — maintaining or preparing accounting records;
  - — preparing financial statements that are filed with the SEC/OSC; or the information that forms the basis of financial statements filed with the SEC/OSC, including statutory financial statements, if those statements form the basis of the financial statements to be filed with the SEC/OSC;
  - — preparing or originating source data underlying financial statements that are filed with the SEC/OSC; and
  - — preparing or determining the accounting treatment required for a proposed or existing transaction.
- Financial information systems design and implementation or operation services. Prohibited services include:
  - — directly or indirectly operating, or supervising the operation of, the Bank's information systems or managing the Bank's local area network; or
  - — designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the financial statements or other financial information systems taken as a whole. Information would be "significant" if it is reasonably likely to be material to the financial statements.
- Appraisal or valuation services for financial reporting purposes, fairness opinions, or contribution-in kind reports.
- Actuarial services used for financial reporting purposes (e.g., the valuation of pension or other benefit plans), and pension fund administration services.
- Internal audit outsourcing services.
- Management functions (as detailed on Page 3) and human resource functions including, but not limited to, benefit plan administration and any matter related to executive or employee searches.
- Broker-dealer, investment adviser, or investment banking services.
- Legal services.
- Certain expert services unrelated to the audit (providing expert opinions or other expert services to the Bank, or the Bank's legal representative(s)) in which the purpose is advocating the Bank's interests in litigation, regulatory, or administrative investigations or proceedings, including representing the Bank before a tax court, district court or federal court of claim. However, tax services involving tax authority (e.g., Canada Revenue Agency, and Internal Revenue Service) examinations, tax appeals, ruling requests, etc. are permitted.
- While services related to advocacy are not permitted, there are circumstances when fraud and forensic engagements are permitted. These will be considered by the Audit Committee on an engagement-by-engagement basis.

Exhibit 6

CORPORATE GOVERNANCE

Sound and effective corporate governance is a priority for The Bank of Nova Scotia and the Bank has adopted corporate governance guidelines. The Bank's Corporate Governance Policies and the charters of Board committees may be found on the Bank's website at www.scotiabank.com, in the Corporate Governance section, and are available in print to any shareholder upon written request to the Secretary of the Bank.

The Bank's Corporate Governance Policies are designed to ensure the independence of the Board of Directors and its ability to effectively supervise management's operation of the Bank. The Board has adopted standards for director independence. The text of these standards appears below. Non-management directors of the Bank meet at regularly scheduled sessions without management present. Mr. Arthur R.A. Scace, the Chairman of the Board, serves as Chair of these non-management sessions. Communications to the Chair, or to the non-management directors as a group, may be sent to: Mr. A.R.A. Scace, Chairman, The Bank of Nova Scotia, 44 King St. West, Scotia Plaza, Toronto, Ontario, Canada M5H 1H1.

Director Independence Standards

A majority of the Bank's directors are independent, as required by current NYSE listed company corporate governance rules. To be considered independent under these rules, the Board must determine that a director has no direct or indirect material relationship with the Bank. A material relationship is a relationship that could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's judgement independent of management. The rules permit the Board to adopt categorical standards in making its independence determinations. The standards adopted by the Board are reproduced below. Definitions and interpretation of terms in the standards are in accordance with applicable source rules and regulations, as amended from time to time. In applying these standards, the Board broadly considers all relevant facts and circumstances.

1. A director will not be independent if:

    - the director is, or has been within the last three years, an employee of the Bank, or an immediate family member of the director is, or has been within the last three years, an executive officer of the Bank;

    - the director has received, or an immediate family member of the director has received (except for employee service other than as an executive officer), during any twelve month period within the last three years, more than US$100,000 in direct compensation from the Bank, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); (for application of this standard to independence of audit committee members, the amount received is more than Cdn$75,000);

- (a) the director or an immediate family member of the director is a current partner of a firm that is the Bank's internal or external auditor; (b) the director is a current employee of such firm; (c) an immediate family member of the director is a current employee of such a firm and participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (d) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Bank's audit within that time;

- the director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Bank's present executive officers at the same time serves or served on that company's compensation committee;

- the director is currently an employee, or an immediate family member of the director is currently an executive officer, of a company that has made payments to, or received payments from, the Bank for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of US$1 million or 2% of such other company's consolidated gross revenues (with the exception that contributions to tax exempt organizations shall not be considered payments for this purpose); or

- the director is (i) "affiliated" with the Bank as that term is used in the Affiliated Persons (Banks) Regulations made under the Bank Act (Canada) or (ii) "related" to the Bank under the TSX Guidelines for Corporate Governance.

An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares the person's home.

2. In addition to satisfying the independence standards set forth above, members of the audit committee must satisfy the following additional independence requirements:

    - An audit committee member may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Bank or any subsidiary, other than compensation in his or her capacity as a member of the Board or any committee or any fixed amount of compensation under a retirement plan (including deferred compensation) for prior service with the Bank (provided such compensation is not contingent in any way on continued service);

    - An audit committee member may not be an "affiliated" person of the Bank or any subsidiary, as defined in applicable Canadian and U.S. securities laws.

The Board will annually review the commercial, charitable and other relationships of directors. Whether directors meet these categorical independence standards will be reviewed and will be made public annually prior to their standing for re-election to the Board. For relationships not covered by the standards in section 1 above, the determination of whether the relationship is material, and therefore whether the director would be independent, will be made by the directors who satisfy those standards. The Bank will disclose the basis for any Board determination that a relationship is immaterial despite the fact that it does not meet the categorical standards set forth above.

On November 30, 2004, the Board of Directors determined that 12 of 15 nominees proposed for election as directors are independent under the above standards. Based on these criteria, the following directors are independent: Ronald A. Brenneman, C.J. Chen, N. Ashleigh Everett, John C. Kerr, The Honourable Michael J.L. Kirby, Laurent Lemaire, The Honourable Barbara J. McDougall, Elizabeth Parr-Johnston, Arthur R.A. Scace, Allan C. Shaw, Paul D. Sobey and Barbara S. Thomas. The following directors are not independent: John T. Mayberry (due to a prior interlocking corporate relationship with a Bank executive officer), Gerald W. Schwartz (due to an overall business relationship with the Bank) and Richard E. Waugh (due to his position as President and Chief Executive Officer). The Bank believes that directors who do not meet the independence standards make valuable contributions to the Board and the Bank by reason of their experience and knowledge.

Exhibit 7

AUDITORS' CONSENT

We consent to the inclusion in this annual report on Form 40-F of (i) our audit report dated November 30, 2004 on the Consolidated Balance Sheets of The Bank of Nova Scotia as at October 31, 2004 and 2003, and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended October 31, 2004, and (ii) our Comments by Auditors for U.S. Readers on Canada – U.S. Reporting Differences dated November 30, 2004.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada

November 30, 2004

/s/ PricewaterhouseCoopers LLP

Chartered Accountants

Exhibit 8

COMMENTS BY AUDITORS FOR U.S. READERS
ON CANADA – U.S. REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's financial statements, such as the changes described in Note 1 (accounting for foreclosed assets, stock-based compensation, hedging relationships, and qualifying costs incurred for computer software) and Note 5(b) (presentation of country risk allowance) to the consolidated financial statements as at October 31, 2004 and 2003 and for each of the years in the three-year period ended October 31, 2004. Our report to the shareholders dated November 30, 2004 is expressed in accordance with Canadian reporting standards, which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada

November 30, 2004

/s/ PricewaterhouseCoopers LLP

Chartered Accountants

Exhibit 9

CERTIFICATIONS

I, RICHARD E. WAUGH, President and Chief Executive Officer of The Bank of Nova Scotia, certify that:

1. I have reviewed this annual report on Form 40-F of The Bank of Nova Scotia;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

/s/ R. Waugh

Date: December 20, 2004

RICHARD E. WAUGH
President and Chief Executive Officer

CERTIFICATIONS

I, SARABJIT S. MARWAH, Senior Executive Vice-President and Chief Financial Officer of The Bank of Nova Scotia, certify that:

1. I have reviewed this annual report on Form 40-F of The Bank of Nova Scotia;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

/s/ S. Marwah

Date: December 20, 2004

SARABJIT S. MARWAH
Senior Executive Vice-President and
Chief Financial Officer

Exhibit 10

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

The Bank of Nova Scotia (the "Company") is filing its annual report on Form 40-F for the fiscal year ended October 31, 2004 (the "Report") with the U.S. Securities and Exchange Commission.

I, Richard E. Waugh, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ R. Waugh
Richard E. Waugh
President and Chief Executive Officer

December 20, 2004

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

The Bank of Nova Scotia (the "Company") is filing its annual report on Form 40-F for the fiscal year ended October 31, 2004 (the "Report") with the U.S. Securities and Exchange Commission.

I, Sarabjit S. Marwah, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ S. Marwah
Sarabjit S. Marwah
Senior Executive Vice President and
Chief Financial Officer

December 20, 2004