UNITED STATES
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, 2006 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	989,512,188
Preferred Shares, Series 12	12,000,000
Preferred Shares, Series 13	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 88 of Exhibit 3, 2006 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 2006 Consolidated Financial Statements and Management's Discussion and Analysis prior to release. Scotiabank is committed to providing timely, accurate and balanced disclosure of all material information and to providing fair and equal access to such information. The Bank's disclosure policies and practices are published on its website.

Disclosure controls are procedures designed to ensure that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified by these regulators. This information is accumulated and communicated to the Bank's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, 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 (GAAP), including a reconciliation to United States GAAP. These controls include policies and procedures that:

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

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

As of October 31, 2006, the Bank's management evaluated the effectiveness of its disclosure controls and procedures, as defined under the rules adopted by the U.S. Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities. This evaluation was performed under the supervision of, and with the participation of the CEO and the CFO. In addition, the Bank's management has assessed whether during the 2006 fiscal year, there have been any changes in the Bank's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

The Bank continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, the Bank's management acknowledges that its disclosure controls and procedures will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

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

- the Bank's disclosure controls and procedures are effective; and
- during the 2006 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are provided in Exhibit 5.

AUDIT COMMITTEE FINANCIAL EXPERT

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

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

CODE OF ETHICS

The Bank has adopted a code of ethics, entitled “Scotiabank Guidelines for Business Conduct”. These guidelines have been in place for many years and apply to all directors, officers and employees of the Bank. The Scotiabank Guidelines for Business Conduct are available on the Bank’s website at www.scotiabank.com, in the Corporate Governance section, and are available in print to any person, without charge, upon written request to the Secretary of the Bank at the Toronto executive office address shown above. Effective November 1, 2006, the supplement to the Scotiabank Guidelines for Business Conduct, entitled Scotiabank Policy for Raising Accounting, Internal Accounting Control, or Auditing Matter Concerns (“Accounting Concerns Policy”), was replaced by a revised supplement entitled Financial Reporting Whistleblower Policy, which is posted on the Bank’s website. Amendments to the Scotiabank Guidelines for Business Conduct and waivers, if any, for directors and executive officers will be disclosed on the Bank’s website. There were no such waivers granted in fiscal 2006.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The disclosure provided in Table 34 “Fees paid to the shareholders’ auditors” on page 78 of Exhibit 2, Management’s Discussion and Analysis, is incorporated by reference herein. The nature of these services is described below:

- Audit services generally relate to statutory audit, accounting consultation, other regulatory-required auditor attest services, as well as services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.
- Audit-related services include accounting consultation, attest services not directly linked to the financial statements that are required by regulatory bodies, and audits of employee benefit plans and other associated entities. Additionally, included in 2005 were fees for services related to the review of documentation and testing results related to internal control over financial reporting.
- Tax services outside of the audit scope represent transfer-pricing surveys required by tax authorities, and assistance with the preparation of corporate and personal tax returns in limited circumstances. Fees for 2005 are also attributed to advice and consultation on certain international tax matters, and tax implications of capital market transactions, insurance activities, and capital tax.
- Other non-audit services are primarily translation services. Additionally, the 2005 fiscal year includes corporate recovery services and compensation surveys.

None of the above services were approved pursuant to an exemption under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X from the requirement that the audit committee pre-approve the services. The majority of the hours expended on the audit of the 2006 consolidated financial statements were attributable to work performed by the full-time permanent employees of the Bank’s independent auditors, KMPG LLP, and for the audit of the 2005 consolidated financial statements, KPMG LLP and PricewaterhouseCooopers LLP. The Audit and Conduct Review Committee’s pre-approval policies and procedures, revised effective November 28, 2005, were attached as Exhibit 5 to the Bank’s Form 40-F for the fiscal year ended October 31, 2005. The Bank moved from two independent audit firms to a single independent audit firm for fiscal 2006.

OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under “Off-Balance Sheet Arrangements” on pages 40 to 41 and “Variable Interest Entities” on page 67 of Exhibit 2, Management’s Discussion and Analysis, is incorporated by reference herein. Additional information from note 1 on pages 95 to 99, note 4(b) on page 102, note 6 on pages 103 and 104, note 13 on pages 106 and 107, note 14 on page 108, note 21 on pages 117 and 118, note 22 on pages 119 to 122, and note 23 on pages 122 to 125 of Exhibit 3, 2006 Consolidated Financial Statements, is incorporated by reference into “Off-Balance Sheet Arrangements” in Management’s Discussion and Analysis.

CONTRACTUAL OBLIGATIONS

The disclosure provided under “Contractual Obligations” on page 61 of Exhibit 2, Management’s Discussion and Analysis, is incorporated by reference herein. Additional information from note 10 on page 105, note 17 on pages 112 and 113, note 21 on pages 117 and 118, and note 22 on pages 119 to 122 of Exhibit 3, 2006 Consolidated Financial Statements, is incorporated by reference into “Contractual Obligations” in Management’s Discussion and Analysis.

IDENTIFICATION OF THE AUDIT COMMITTEE

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

Undertaking

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

Signatures

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

Registrant: **THE BANK OF NOVA SCOTIA**

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

Date: December 19, 2006

EXHIBIT INDEX

Exhibit No.	Description
1.	Annual Information Form dated December 19, 2006
2.	Management's Discussion and Analysis (pages 25 through 85 of the 2006 Annual Report)
3.	2006 Consolidated Financial Statements (pages 87 through 131 of the 2006 Annual Report)
4.	The following page of the 2006 Annual Report is also incorporated by reference into the Annual Information Form: Principal Subsidiaries (page 132 of the 2006 Annual Report)
5.	Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm (page 86 of the 2006 Annual Report)
6.	Corporate Governance
7.	Auditors' Consent in respect of the fiscal year ended October 31, 2006
8.	Auditors' Consent in respect of the fiscal year ended October 31, 2005
9.	Comments by Auditors for U.S. Readers on Canada — U.S. Reporting Difference
10.	Shareholders' Auditors' Report, November 29, 2005
11.	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.
12.	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 19, 2006

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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 19, 2006 (the "AIF") are disclosed in the Annual Report to Shareholders for the year ended October 31, 2006 (the "Annual Report"). The Annual Report is also available on SEDAR at www.sedar.com.

Financial Data

Except as otherwise noted, all information is given at or for the year ended October 31, 2006. 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 and any applicable Canadian securities legislation. These statements include comments with respect to the Bank's objectives, strategies to achieve those objectives, expected financial results (including those in the area of risk management), and the outlook for the Bank's businesses and for the Canadian, United States and global economies. Forward-looking statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intent", "estimate", "plan", "may increase", "may fluctuate", and similar expressions of future or conditional verbs such as "will", "should", "would" and "could".

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. 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; operational and reputational risks; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; the Bank's ability to expand existing distribution channels and to develop and realize revenues from new distribution channels; the Bank's ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital markets activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; consolidation in the Canadian financial services sector; changes in tax laws; competition, both from new entrants and established competitors; 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; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. For more information see the section entitled "Risk Management" starting on page 53 of the Bank's 2006 Annual Report.

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 is available on www.sedar.com.

Intercorporate Relationships

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

The Bank's principal subsidiaries are listed on page 132 of the Annual Report and that page is incorporated herein by reference.

GENERAL DESCRIPTION OF THE BANK'S BUSINESS

Three-Year History

The Bank is one of North America's premier financial institutions and Canada's most international bank. The Bank is a full-service financial institution, active in both domestic and international markets. In Canada, the Bank provides a full range of retail, commercial, corporate, investment and wholesale banking services through its extensive network of branches and offices across Canada. With close to 57,000 employees, the Bank, and its affiliates, have branches and offices serving almost 12 million customers in some 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, 2006, the Bank's net income available to common shareholders was a record $3,549 million, an increase of $365 million or 12% higher than 2005. Earnings per share (on a diluted basis) were $3.55, up 13% from $3.15 in 2005. This strong performance boosted return on equity to 22.1%, its highest level in recent history. On a year-over-year basis, dividends rose by 14% to $1.50 per share, and have risen at a compound annual rate of 16.3% over the past 10 years. In fiscal 2006, the dividend payout ratio was 42%, up from 41% from last year, and within the Bank's target payout range of 35% to 45%.

In the fiscal year ended October 31, 2005, the Bank's net income available to common shareholders was a record $3,184 million, an increase of $292 million or 10% higher than 2004. Earnings per share (on a diluted basis) were $3.15, up 12% from $2.82 in 2004. This strong performance boosted return on equity to 20.9%, its highest level in eight years. In fiscal 2005, the Bank's actual dividend payout ratio was 41%, up from 38% in 2004 and well within the Bank's target payout range of 35% to 45%.

In the fiscal year ended October 31, 2004, the Bank's net income available to common shareholders was a record $2,892 million, a substantial increase of $486 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.

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 2006 Management's Discussion and Analysis found beginning on page 42 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. Retail Banking provides a full range of financial products and services to nearly 7 million customers through a multi-channel domestic delivery network that includes 972 branches; 2,742 automated banking machines ("ABMs"); telephone, wireless and internet banking; three call centres; 100 wealth management branches; four dealer finance centres; and six commercial and business banking centres. Retail and Small Business Banking supplies mortgages, loans, credit cards, investments, insurance and day-to-day banking products to individuals and small businesses. Wealth Management provides a full range of products and services including: retail brokerage (discretionary, non-discretionary and self-directed); investment management advice; mutual funds and savings products; and financial planning and private client services for affluent clients. Commercial Banking delivers a full product suite to medium and large businesses.

International Banking

The Bank's International Banking business line operates in more than 40 countries and includes operations in the following geographic regions: the Caribbean and Central America, Mexico, Latin America, and Asia. International Banking includes the Bank's retail and commercial banking operations outside of Canada. Including the Bank's subsidiaries and affiliates, more than 27,100 employees worldwide provide a full range of services to over 4.7 million customers. In the Caribbean and Central America, the Bank operates in 25 countries with 372 branches and offices and a network of 844 ABMs and employs over 11,200 staff. In Mexico, Grupo Financiero Scotiabank Inverlat, S.A. de C.V. is the sixth-largest financial group in the Mexican banking system, serving more than 1.4 million customers through 494 branches and offices, and has a network of 1,122 ABMs, nearly 7,400 employees and a significant portion of the rapidly expanding mortgage and automotive financing markets. In Latin America, the Bank's holdings include Scotiabank Sud Americano, S.A. in Chile, Scotiabank Peru S.A.A. and an affiliate in Venezuela. In Chile, the Bank operates 53 branches and offices and provides personal, commercial and corporate banking services. The Bank expanded its operations in Peru this year, which resulted in 77.57% ownership of the third-largest bank in the country, with 140 branches and other operations. In the Asia Pacific region, the Bank operates in nine countries with 24 branches and offices. Current activities are focused on commercial banking and trade finance, along with some wholesale banking.

Scotia Capital

Scotia Capital provides full service wholesale banking to corporate, government and institutional clients across the NAFTA region as well as other selected niche markets globally. Scotia Capital has 18 offices and more than 300 relationship managers who are organized primarily around industry specialties. Scotia

Capital is organized into two main businesses. Global Corporate and Investment Banking is organized geographically with four groups: Canadian Corporate and Investment Banking; United States Corporate; Europe Corporate; and Mexico Wholesale. In Canada, Scotia Capital provides wholesale banking services. In Mexico, Scotia Capital offers a full suite of wholesale products, as well as cash management, trade finance and correspondent banking to our Mexico-based clients. The United States and European units provide corporate lending products as well as select non-lending products. Global Capital Markets represents the Bank's trading businesses and operates in Canada, the United States, Mexico, Western Europe and Asia. Global Capital Markets specializes in fixed income, derivatives, foreign exchange, and equity sales, trading and research, and through ScotiaMocatta, precious metals.

Competition

The Canadian banking system consists of six major Canadian banks, each of which maintains an extensive branch network, augmented with ABMs, telephone and internet banking facilities. In addition to the six major Canadian banks, the banking system includes 15 smaller domestic banks, 45 foreign banks and over 1,000 credit unions and caisses populaires. In total, the Canadian financial services industry includes more than 3,500 financing institutions such as life insurance companies, property and casualty insurers, consumer finance companies, independent investment dealers and independent retail mutual fund management companies. Key competitive factors include the range and features of financial products, their pricing, distribution, and service quality.

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 in the range of products and services offered, innovation in features, services, technology and delivery and the different pricing adopted. A good measure of the competition in the sector is the narrow margins in Canada. Canada has had, on average since 1996, the lowest interest rate spreads of all countries monitored by the World Economic Forum. Another indicator of competition is new entrants into the market and there have been several new banks that have received charters from the federal bank regulator recently.

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, or mutual funds or act as mutual fund distributors or that service financial institutions and the bank may have downstream holding companies to hold these investments. In certain cases, the approval of the Minister of Finance or the Superintendent of Financial Institutions Canada (the "Superintendent") is required prior to making the investment and/or the bank is required to control the entity. 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 its subsidiaries acting as securities brokers, dealers (including investment and mutual fund dealers), underwriters and advisors (including investment counsel and portfolio managers) are regulated in Canada under provincial securities legislation and, in some cases, by self regulatory organizations such as the Investment Dealers Association for broker dealers and the Mutual Fund Dealers Association for mutual fund dealers.

Supervision and Regulation Outside Canada

United States

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

The Bank is a "financial holding company" under the BHCA. This status allows a broad range of financial and merchant banking activities to be undertaken in the United States. In addition, the Bank owns 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, many of which are banks in their own right, is also subject to the regulatory requirements of the jurisdiction in which it conducts its business.

Social and Environmental Policies

Each year the Bank publishes its Corporate Social Responsibility 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 53 to 63 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 are paid or sufficient funds have been set aside to do. The Bank cannot pay a dividend if, on the day such dividend is declared, the total of all dividends declared that year would exceed the aggregate of the Bank's net income to that day and its net income for the preceding two financial years, unless the approval of the Superintendent is obtained.

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 2006, the Bank's actual dividend payout ratio was 42%, up from 41% in 2005 and within the

Bank's target payout range of 35% to 45%. The Bank's practice has been to relate dividends to the trend in earnings, while ensuring that capital levels are sufficient for both growth and depositor protection.

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

Year	Common share dividend*
2006	$1.50
2005	$1.32
2004	$1.10

* 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 989,512,188 common shares were issued and outstanding as at October 31, 2006.

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

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

Preferred Shares — General

The authorized preferred share capital of the Bank consists of an unlimited number of preferred shares without nominal or par value issuable in series. As at October 31, 2006, 12,000,000 non-cumulative preferred shares, series 12 (the "Preferred Shares, Series 12") and 12,000,000 non-cumulative preferred shares, series 13 ("Preferred Shares, Series 13") were issued and outstanding. The term Preferred Shares shall refer to the Preferred Shares, Series 12 and the Preferred Shares, Series 13.

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

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

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

Certain Provisions of the Preferred Shares, Series 12

The holders of the Preferred Shares, Series 12 will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, on the third last business day of each of January, April, July and October in each year, at a quarterly rate equal to $0.328125 per share.

The Preferred Shares, Series 12 will not be redeemable prior to October 29, 2013. On and after October 29, 2013, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and subject to certain conditions being met, the Bank may redeem at any time all or, from time to time, any part of the outstanding Preferred Shares, Series 12, at the Bank's option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of $25.00, together with declared and unpaid dividends to the date fixed for redemption.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 12 shall be entitled to receive $25.00 per share together with all dividends declared and unpaid to the date of payment before any amount shall be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 12. The holders of the Preferred Shares, Series 12 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 12 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares, Series 12 given as specified below:

(a) pay any dividends on the common shares or any other shares ranking junior to the Preferred Shares, Series 12 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 12); or

(b) redeem, purchase or otherwise retire any common shares or any other shares ranking junior to the Preferred Shares, Series 12 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 12); or

(c) redeem, purchase or otherwise retire less than all the Preferred Shares, Series 12; or

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, Series 12, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 12;

unless, in each case, all dividends up to and including those payable on the dividend payment date for the last completed period for which dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Preferred Shares, Series 12 then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares, Series 12 and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative preferred shares (including the Preferred Shares, Series 12) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares.

Upon notice being given by the Bank from time to time with the prior approval of the Superintendent, a holder of Preferred Shares, Series 12 may exchange all but not less than all of the Preferred Shares, Series 12 held by such holder into an equal number of a new issue of a series of fully-paid and freely tradeable preferred shares issued by the Bank which at the time of such issue qualifies as Tier 1 capital for regulatory capital purposes of the Bank on the date fixed for exchange in such notice.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 12 without the authorization of the holders of the Preferred Shares, Series 12.

The holders of the Preferred Shares, Series 12 as such will not be entitled to receive notice of or to attend or to vote at any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors of the Bank has not declared the whole dividend on the Preferred Shares, Series 12 in any quarter. In that event, the holders of the shares will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held. The voting rights of the holders of the Preferred Shares, Series 12 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 12 to which the holders are entitled subsequent to the time such voting rights first arose until such time as the Bank may again fail to declare the whole dividend on the Preferred Shares, Series 12 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

Certain Provisions of the Preferred Shares, Series 13

The holders of the Preferred Shares, Series 13 will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, on the third last business day of each of January, April, July and October in each year, at a quarterly rate equal to $0.30 per share. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on the Preferred Shares, Series 13 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares, Series 13 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The Preferred Shares, Series 13 will not be redeemable prior to April 28, 2010. On and after April 28, 2010, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and certain conditions being met, the Bank may redeem at any time all or from time to time any part of the outstanding Preferred Shares, Series 13, at the Bank's option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of: $26.00 if redeemed during the period commencing April 28, 2010 and ending April 26, 2011; $25.75 if redeemed during the period commencing April 27, 2011 and ending April 25, 2012; $25.50 if redeemed during the period commencing April 26, 2012 and ending April 25, 2013; $25.25 if redeemed during the period commencing April 26, 2013 and ending April 27, 2014; and $25.00 commencing April 28, 2014 and thereafter together with, in each case, declared and unpaid dividends to the redemption date.

Notice of any redemption will be given by the Bank at least 30 days and not more than 60 days prior to the date fixed for redemption. If less than all the outstanding Preferred Shares, Series 13 are at any time to be redeemed, the shares to be redeemed will be selected by lot or in such other manner as the Bank may determine, or if the Bank decides, may be redeemed *pro rata*, disregarding fractions.

Subject to the provisions of the Bank Act, the prior consent of the Superintendent and certain conditions being met, the Bank may at any time purchase for cancellation any Preferred Share, Series 13 at the lowest price or prices at which in the opinion of the Board of Directors of the Bank such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares, Series 13 shall be entitled to receive $25.00 per share together with all dividends declared and unpaid to the date of payment before any amount shall be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares, Series 13. The holders of the Preferred Shares, Series 13 shall not be entitled to share in any further distribution of the assets of the Bank.

So long as any of the Preferred Shares, Series 13 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares, Series 13 given as specified below:

(a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares, Series 13 (other than stock dividends in shares ranking junior to the Preferred Shares, Series 13); or

(b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares, Series 13 (except out of the net cash proceeds of a

substantially concurrent issue of shares ranking junior to the Preferred Shares, Series 13); or

(c) redeem, purchase or otherwise retire less than all of the Preferred Shares, Series 13; or

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares, Series 13;

unless, in each case, all dividends up to and including those payable on the dividend payment date for the last completed period for which dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Preferred Shares then issued and outstanding and on all other cumulative shares ranking on a parity with the Preferred Shares and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Preferred Shares (including the Preferred Shares, Series 13) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Preferred Shares.

The Bank may issue other series of Preferred Shares ranking on a parity with the Preferred Shares, Series 13 without the authorization of the holders of the Preferred Shares, Series 13.

Subject to the provisions of the Bank Act, the holders of the Preferred Shares, Series 13 as such will not be entitled to receive notice of or to attend or to vote at any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors of the Bank has not declared the whole dividend on the Preferred Shares, Series 13 in any quarter. In that event, the holders of the Preferred Shares, Series 13 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held. The voting rights of the holders of the Preferred Shares, Series 13 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares, Series 13 to which the holders are entitled subsequent to the time such voting rights first arose until such time as the Bank may again fail to declare the whole dividend on the Preferred Shares, Series 13 in any quarter, in which event such voting rights shall become effective again and so on from time to time.

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

The Bank's non-cumulative preferred shares are rated Pfd-1 by Dominion Bond Rating Service.

The above-noted ratings have the following meanings:

Moody's Investor Service

- Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more.
- Obligations rated Aa are judged to be high quality and are subject to very low credit risk. The numerical modifier (3) indicates a lower ranking within the Aa rating category.
- Obligations rated A are considered upper-medium grade and are subject to low credit risk. The numerical modifier (1) indicates a higher ranking within the A ranking category.
- Moody's short term ratings are opinions of the issuer's ability to honour short-term financial obligations. A P-1 rating indicates that an issuer has a superior ability to repay short-term debt obligations.

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

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

- 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 Service ("DBRS")

- Long-term debt rated AA is of superior credit quality, and protection of interest and principal is considered high. In many cases they differ from long-term debt rated AAA only to a small degree. Given the extremely restrictive definition DBRS has for the AAA category, entities rated AA are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the middle of the category.
- Short-term debt rated R-1 (high) is of the highest credit quality, and indicates an entity possessing unquestioned ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels, and profitability that is both stable and above average. Companies achieving an R-1 (high) rating are normally leaders in structurally sound industry segments with proven track records, sustainable positive future results, and no substantial qualifying negative factors. Given the extremely tough definition DBRS has established for an R-1 (high), few entities are strong enough to achieve this rating.
- Preferred shares rated Pfd-1 are of superior credit quality, and are supported by entities with strong earnings and balance sheet characteristics. Pfd-1 securities generally correspond with companies whose senior bonds are rated in the AAA or AA categories. As in the case with all rating categories, the relationship between senior debt ratings and preferred share ratings should be understood as one where the senior debt rating effectively sets a ceiling for the preferred shares issued by the entity. However, there are cases where the preferred share rating could be lower than the normal relationship with the issuer's senior debt rating.

MARKET FOR SECURITIES OF THE BANK

The Bank's common shares trade under the stock symbol "BNS" on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE"). The Preferred Shares are listed on the TSX under the stock symbols "BNS.PR.J" for the Preferred Shares, Series 12, and "BNS.PR.K" for the Preferred Shares, Series 13. The Bank also has deposit notes and debentures listed on the London Stock Exchange and the Swiss Exchange.

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

Common Shares

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

Month	High	Low	Monthly Trading Volume
October 2006	$49.30	$47.30	42,076,570
September 2006	$48.77	$46.14	45,807,945
August 2006	$49.36	$45.75	35,605,483
July 2006	$46.94	$44.22	30,642,498
June 2006	$45.28	$44.22	47,191,596
May 2006	$46.26	$41.87	46,826,832
April 2006	$46.81	$45.23	35,713,504
March 2006	$48.11	$46.57	55,284,167
February 2006	$48.59	$46.36	40,362,374
January 2006	$46.92	$45.75	45,074,994
December 2005	$46.84	$44.89	41,348,934
November 2005	$47.10	$43.25	39,520,813

Preferred Shares, Series 12

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

Month	High	Low	Monthly Trading Volume
October 2006	$27.07	$26.85	112,140
September 2006	$27.25	$26.95	109,224
August 2006	$27.00	$26.21	134,682
July 2006	$26.17	$25.70	87,147
June 2006	$26.43	$25.91	164,701
May 2006	$26.35	$25.40	149,004
April 2006	$27.00	$25.40	127,449
March 2006	$27.41	$26.82	105,306
February 2006	$26.95	$26.68	80,196
January 2006	$27.14	$26.85	111,772
December 2005	$27.29	$26.93	130,811
November 2005	$27.08	$26.17	136,131

Preferred Shares, Series 13

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

Month	High	Low	Monthly Trading Volume
October 2006	$26.10	$25.85	217,228
September 2006	$26.25	$25.90	474,100
August 2006	$25.95	$25.20	296,176
July 2006	$25.29	$25.05	416,910
June 2006	$25.84	$25.10	366,756
May 2006	$25.68	$24.81	302,443
April 2006	$25.65	$24.90	133,001
March 2006	$26.20	$25.63	252,787
February 2006	$26.24	$25.80	334,704
January 2006	$26.14	$25.56	253,656
December 2005	$26.11	$25.59	279,969
November 2005	$25.99	$24.98	638,671

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, Canada (Director since March 28, 2000)	ACRC HRC	President and Chief Executive Officer of Petro-Canada, an oil and gas company	25,162 / 19,341
C.J. Chen Singapore (Director since October 30, 1990)	CGPC	Counsel to Rajah & Tann, advocates and solicitors, Singapore	33,624 / 7,077
N. Ashleigh Everett Winnipeg, Manitoba, Canada (Director since October 28, 1997)	CGPC HRC	President, Corporate Secretary and director of Royal Canadian Securities Limited, whose principal businesses include Domo Gasoline Corporation (a gasoline retailer) and Royal Canadian Properties Limited (a real estate and property development company)	12,308 / 13,146
John C. Kerr, C.M., O.B.C., LL.D. Vancouver, British Columbia, Canada (Director since March 30, 1999)	CGPC HRC	Chairman of Lignum Investments Ltd., a privately-held investment company and managing partner of Lignum Forest Products LLP, a privately-held forest products distribution company.	11,800 / 18,482

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSU's Owned
The Honourable Michael J.L. Kirby Nepean, Ontario, Canada (Director since March 28, 2000)	ACRC — Chair ERC	Corporate Director and retired member of the Senate of Canada	2,493 / 21,097
Laurent Lemaire Warwick, Quebec, Canada (Director since March 31, 1987)	ERC HRC	Executive Vice-Chairman of the Board of Cascades Inc., a manufacturer of pulp and paper products, packaging and construction materials and sanitary products	15,692 / 0
John T. Mayberry Burlington, Ontario, Canada (Director since March 29, 1994)	ERC — Chair HRC — Since May 2006	Retired Chair of the Board and Chief Executive Officer of Dofasco Inc., a manufacturer of primary steel products	11,548 / 20,322
The Honourable Barbara J. McDougall, O.C. Toronto, Ontario, Canada (Director since March 30, 1999)	ACRC HRC	Advisor to Aird & Berlis LLP, barristers and solicitors, Toronto	6,364 / 8,175
Elizabeth Parr-Johnston, Ph.D. Chester Basin, Nova Scotia, Canada (Director since October 26, 1993)	ACRC CGPC	President of Parr Johnston Economic and Policy Consultants	9,620 / 17,425
Alexis E. Rovzar de la Torre New York, New York, U.S.A. (Director since December 31, 2005)	CGPC	Executive Partner in charge of the Latin American practice of White & Case LLP, a global law firm	2,099 / 0
Arthur R.A. Scace, C.M., Q.C. Toronto, Ontario, Canada (Director since March 25, 1997. Non-Executive Chair since March 2, 2004)	ERC HRC — Chair Ex-officio member of ACRC and CGPC	Corporate Director	15,435 / 12,301
Gerald W. Schwartz, O.C. Toronto, Ontario, Canada (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 / 4,664
Allan C. Shaw, C.M., LL.D. Halifax, Nova Scotia, Canada (Director since September 30, 1986)	CGPC — Chair ERC	Non-Executive Chairman of The Shaw Group Holding Limited, a manufacturer of residential and construction products and a real estate developer	71,444 / 21,242

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSU's Owned
Paul D. Sobey Kings Head, Pictou County, Nova Scotia, Canada (Director since August 31, 1999)	ACRC CGPC	President and Chief Executive Officer of Empire Company Limited, a food distributor, real estate and investment company	16,000 / 18,551
Barbara S. Thomas Belleair, Florida, U.S.A. (Director since September 28, 2004)	ACRC	Corporate Director	3,964 / 0
Richard E. Waugh Toronto, Ontario, Canada (Director since March 25, 2003)	ERC	President and Chief Executive Officer of the Bank	107,558 / 268,855 (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 The Honourable Michael J.L. Kirby, who, prior to October 2006, was a Member of the Senate of Canada; 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 who, from 2002 to 2003, was a director and Interim Chief Executive Officer of Ocean Spray Company.

Executive Officers of the Bank

The following are the Bank's executive officers, their titles and municipalities of residence in Canada as of December 19, 2006:

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

Name and Principal Occupation	Municipality of Residence
Alberta G. Cefis Executive Vice-President and Group Head, Global Transaction Banking	Toronto, Ontario
Sylvia D. Chrominska Executive Vice-President, Human Resources and Public, Corporate and Government Affairs	Toronto, Ontario
Wendy Hannam Executive Vice-President, Domestic Personal Banking and Distribution	Toronto, Ontario
Timothy P. Hayward Executive Vice-President and Chief Administrative Officer, International Banking	Oakville, Ontario
Christopher J. Hodgson Executive Vice-President, Head of Domestic Personal Banking	Toronto, Ontario
Dieter W. Jentsch Executive Vice-President, Commercial Banking	Toronto, Ontario
Barbara Mason Executive Vice-President, Wealth Management	Toronto, Ontario
Kim McKenzie Executive Vice-President, Information Technology and Solutions	Oakville, Ontario
Robert H. Pitfield Executive Vice-President, International Banking	Toronto, Ontario
Brian J. Porter Executive Vice-President and Chief Risk Officer	Toronto, Ontario
S. Jane Rowe Executive Vice-President, Domestic Personal Lending and Insurance	Toronto, Ontario
Luc A. Vanneste Executive Vice-President and Chief Financial Officer	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; Brian J. Porter who, prior to November 1, 2005, was a senior officer of Scotia Capital Inc.; and S. Jane Rowe who, prior to May 5, 2006, was President and CEO of RoyNat Inc..

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

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

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

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

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

(b) has, or within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer, except Mrs. McDougall who was, prior to March 31, 2006, a director of Stelco Inc., which, in 2004, entered into an arrangement with its creditors and Ms. Everett who was, prior to April 2005, a director and officer of Tereve Holdings Ltd., which filed for protection under the *Companies' Creditors Arrangement Act* (Canada) in August 2005.

To the best of the Bank's knowledge, after due inquiry, none of the directors or executive officers of the Bank have been subject to (a) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or have entered into a settlement agreement with a Canadian securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or a regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Shareholdings of Management

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

LEGAL PROCEEDINGS

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

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

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

TRANSFER AGENT AND REGISTRAR

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

CONFLICTS OF INTEREST

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

EXPERTS

The Bank's Shareholders' Auditors are KPMG LLP, Suite 3300 Commerce Court West, P.O. Box 31, Station Commerce Court, Toronto, Ontario, M5L 1B2. KPMG LLP is independent of the Bank within the Rules of Professional Conduct/Code of Ethics of various Canadian provincial institutes/ordre and the *U.S. Securities Act of 1933* and the applicable rules and regulations thereunder.

THE BANK'S AUDIT AND CONDUCT REVIEW COMMITTEE

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

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

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

Michael J. L. Kirby (Chair) — Mr. Kirby recently completed his three year term 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. He has also completed the twelve day Directors Education Course at the Rotman School of Business at the University of Toronto, which is under the auspices of the Institute of Corporate Directors.

Ronald A. Brenneman — Mr. Brenneman has extensive employment experience directly related to the preparation of and supervision of the preparation of financial statements. He is currently the President and Chief Executive Officer of Petro-Canada (2000 to present), is a former CEO of Esso Benelux (1994 to

1997), was the President of Imperial Oil Ltd. (1992 to 1994) and prior to that was the Chief Financial Officer of Imperial Oil Limited.

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

Elizabeth Parr-Johnston — Dr. Parr-Johnston holds a M.A. and Ph.D. in economics from Yale University. She is a former President and Vice-Chancellor of two Canadian universities.

Paul D. Sobey — Mr. Sobey has a Bachelor of Commerce from Dalhousie University, attended the Advanced Management Program at Harvard School of Business and is a chartered accountant. In 2005, Mr. Sobey was awarded the Fellow Chartered Accountant designation by the Institute of Chartered Accountants of Nova Scotia. He is currently the President and Chief Executive Officer of Empire Company Limited, a Canadian publicly-traded company.

Barbara S. Thomas — Ms. Thomas has previously served on the audit committee of Dial Corporation and is a current member of the audit committee of Spectrum Brands Corporation (formerly Rayovac Corporation) and Blue Cross Blue Shield of Florida. She has experience as a president and chief executive officer of a company or a division of a company as Ms. Thomas was Interim Chief Executive Officer of Ocean Spray Company from 2002 to 2003.

Please refer to Table 34 on page 78 of the Annual Report, which is incorporated herein by reference, for disclosure relating to the fees paid by the Bank to the Bank's Shareholders' Auditors, KPMG LLP and its former auditors, PricewaterhouseCoopers LLP in each of the last two fiscal years. The nature of these services is described below:

- Audit services generally relate to the statutory audit, accounting consultation, other regulatory-required auditor attest services, as well as services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.
- Audit-related services include accounting consultation, attest services not directly linked to the financial statements that are required by regulatory bodies, and audits of employee benefit plans and other associated entities. Additionally, included in 2005 were fees for services related to the review of documentation and testing results related to internal control over financial reporting.
- Tax services outside of the audit scope represent transfer-pricing surveys required by tax authorities, and assistance with the preparation of corporate and personal tax returns in limited circumstances. Fees for 2005 are also attributed to advice and consultation on certain international tax matters, and tax implications of capital market transactions, insurance activities, and capital tax.
- Other non-audit services are primarily translation services. Additionally, the 2005 fiscal year includes corporate recovery services 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 Shareholders' Auditors. The objective of the Policies is to specify the scope of services permitted to be performed by the Bank's Shareholders' Auditors and to ensure the independence of the Bank's Shareholders' Auditors is not compromised through engaging it for other services. The Policies state that the Audit and Conduct Review Committee shall pre-approve the following: Audit services (all such engagements provided by the Bank's Shareholders' Auditors as well as all such engagements provided by any other registered public accounting firm); and other permitted services to be provided by the Bank's Shareholders' Auditors (primarily audit and audit-related services). The Bank's Shareholders' Auditors shall not be engaged in the provision of tax or other non-audit services without the pre-approval of the Audit and Conduct Review Committee. The Policies also enumerate pre-approved services including specific audit, audit-related and other limited non-audit services that are consistent with

the independence requirements of the United States Sarbanes-Oxley Act, 2002, Canadian independence standards for auditors and applicable legal requirements. The Policies are applicable to the Bank, its subsidiaries and entities that are required to be consolidated by the Bank. The Audit and Conduct Review Committee shall review and approve the Policies on at least an annual basis. The Policies do not delegate any of the Audit and Conduct Review Committee's responsibilities to management of the Bank.

ADDITIONAL INFORMATION

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

Additional information relating to the Bank may be found on the SEDAR website at www.sedar.com and on the United States Securities and Exchange Commission's website at www.sec.gov. Additional information, including directors' and officers' compensation, indebtedness and options to purchase securities, principal holders of the Bank's securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular. Additional financial information, including the related management's discussion and analysis, is provided in the Bank's comparative financial statements for its year ended October 31, 2006, 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

Mandate

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

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

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

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

- the integrity of the Bank's financial statements and related quarterly results press releases;
- the Bank's compliance with legal and regulatory requirements;
- the system of internal control, including internal control over financial reporting and disclosure controls and procedures ("internal controls");
- the external auditor's qualifications and independence;
- the performance of the Bank's internal audit function and independent auditors; and
- the preparation of a committee report for inclusion in the Bank's proxy circular.

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

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

Authority

The Committee has authority to:

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

C. Duties

The Committee shall:

Financial Information

- review the quarterly and annual consolidated financial statements of the Bank prior to approval by the Board and disclosure to the public; review should include discussion with management and the external auditor of significant issues, including significant accounting policies, regarding the financial results, accounting principles, practices and management estimates and judgments;
- review the quarterly and annual Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") prior to review and approval by the Board;
- review any material proposed changes in accounting standards and securities policies or regulation relevant to the Bank's financial statements;
- be satisfied that adequate procedures are in place for the review of the Bank's public disclosure of all financial statements and related quarterly results press releases and periodically assess the adequacy of these procedures;
- review earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies prior to public disclosure;
- discuss significant financial risk exposures and the steps management of the Bank has taken to monitor, control and report such exposures;
- review with management and the external auditor all matters required to be communicated to the Committee under generally accepted auditing standards;
- review the Annual Information Form; and
- review the process relating to and the certifications of the Chief Executive Officer and the Chief Financial Officer on the integrity of the Bank's quarterly and annual consolidated financial statements.

Compliance

- receive reports from management on the Bank's compliance with legal and regulatory requirements and the effectiveness of the Bank's compliance policies, including:
  - review the annual report of Group Compliance, including compliance with the Bank's Guidelines for Business Conduct and any instances of material deviation therefrom with corrective actions taken;
  - review the semi-annual report on litigation matters; and
  - review any plans to remediate any deficiencies identified.
- review the annual letter of certification from the Chief Executive Officer on the Bank's compliance with the Guidelines for Business Conduct;
- review investments and transactions that could adversely affect the well-being of the Bank brought to its attention by the external auditor or by any officer of the Bank;
- meet with representatives of the Office of the Superintendent of Financial Institutions Canada ("OSFI") to discuss OSFI's supervisory results;
- meet with Bank management to review and discuss the Bank's response to OSFI's recommendations and suggestions pursuant to their supervisory activities; and
- review such returns as specified by OSFI.

Internal Controls

- require Bank management to implement and maintain appropriate internal controls procedures including anti-fraud controls and review, evaluate and approve these procedures;

- receive and review reports from management and internal audit on the design and operating effectiveness of internal controls and any significant control breakdowns; and
- require management to establish procedures and review the procedures established 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, resources and the quarterly reports of the Chief Internal Auditor;
- meet with the Chief Internal Auditor, or the officer or employee of the Bank acting in a similar capacity, and with the management of the Bank, to discuss the effectiveness of the Bank's internal control procedures;
- review periodically the Charter for the Audit Department and the mandate for the Chief Internal Auditor;
- review the annual performance review of the Chief Internal Auditor;
- review the objectivity of the Bank's internal audit function; and
- approve the appointment of the Chief Internal Auditor.

External Auditor

- have responsibility for the oversight of the external auditor who report directly to the Committee;
- retain and terminate the Bank's external auditor, subject to shareholder ratification;
- review the annual audit plan and letter(s) of engagement;
- at least annually review the report of the external auditor;
- review and evaluate the external auditor's qualifications, performance and independence, including a review and evaluation of the lead audit partner;
- review and recommend to the Board the annual fee for the audit of the Bank's consolidated financial statements;
- review and pre-approve in accordance with established pre-approval policy, all service to be provided by the external auditor, including audit and audit related services and permitted tax and non-audit services;
- review external auditor services pre-approved by the delegate of the Committee;
- review annually the total fees paid to the external auditor by required categories;
- at least annually, obtain and review a report from the external auditor describing:
    - the firm's internal quality-control procedures;
    - any material issues raised by the most recent internal quality-control review, or peer review, of the firm'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, and any steps taken to deal with any such issues; and
    - to assess all relationships between the external auditor and the Bank that pertain to independence;
- review the rotation plan for partners on the engagement;
- meet with the external auditor and with management to discuss the quarterly and the annual consolidated financial statements including the Bank's disclosure under MD&A;
- review with the external auditor any audit problems or difficulties and management's response;
- resolve any disputes between the external auditor and management; and
- review and approve policies for the Bank's employment of current and former employees or partners of the current or former external auditor.

Other Duties

- provide for an open avenue of communication between internal audit, the external auditor and the Board of Directors;
- meet separately, at least quarterly, with management, the Chief Internal Auditor and with the external auditor;

- annually, review the charter for the Committee and evaluate the Committee's effectiveness in fulfilling its mandate; and
- institute and oversee special investigations as needed.

CONDUCT REVIEW

D. Mandate

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

E. Duties

1. Establish criteria for determining whether the value of transactions with related parties of the Bank is nominal or immaterial to the Bank;
2. Approve the terms and conditions of:
   - loans, other than margin loans, to senior officers of the Bank on terms and conditions more favourable to the senior officers than those offered to the public;
   - loans to spouses of senior officers of the Bank on the security of mortgages of the principal residences of such spouses on terms and conditions more favourable than those offered to the public;
3. Approve the practice of the Bank making financial services, other than loans or guarantees, available to senior officers of the Bank or to spouses, or children who are less than 18 years of age of senior officers of the Bank, on terms and conditions more favourable than those offered to the public,

provided the financial services are offered by the Bank to its employees on those favourable terms and conditions;

4. Require Bank management to establish procedures to enable the Bank to verify that its transactions with related parties of the Bank comply with Part XI of the *Bank Act* and to review those procedures. These procedures should, among other things, enable management to verify that:
   - all related party transactions are on terms and conditions at least as favourable to the Bank as market terms and conditions, other than transactions referred to in clauses 2 and 3 above; and
   - loans to full-time senior officers, other than margin loans and mortgages on their principal residences, do not exceed the greater of twice their annual salaries and $100,000; and
   - aggregate loans or guarantees to, and investments in the securities of any related party (subject to certain exceptions) do not exceed 2% of the Bank's regulatory capital unless the approval of 2/3 of the Board has been obtained; and
   - aggregate loans or guarantees to, and investments in the securities of all related parties (subject to certain exceptions) do not exceed 50% of the Bank's regulatory capital;
5. Review the practices of the Bank to identify any transactions with related parties of the Bank that may have a material effect on the stability or solvency of the Bank;
6. Monitor the procedures established by the Board to resolve conflicts of interest, including techniques for the identification of potential conflict situations, and to restrict the use of confidential information; and
7. Monitor the procedures established by the Board to provide disclosure to customers of the Bank of information that is required to be disclosed by the *Bank Act*, and for dealing with and reporting complaints made by customers of the Bank who have requested or received products or services in Canada and to satisfy itself that these procedures are being adhered to by the Bank.

COMMITTEE OPERATIONS

F. Reporting

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

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

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

G. Composition

Structure

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

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

Independence

No member of the Committee may be a current or former officer or employee of the Bank or of any of its subsidiaries or affiliates. No member may be a person who is affiliated with the Bank or of any of its subsidiaries or affiliates or be related or non-independent as determined by the Board for the purposes of the NYSE Corporate Governance Rules or the CSA's Corporate Governance Guidelines. No member may hold 5% or more of the voting shares of the Bank.

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

Appointment of Committee Members

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

Vacancies

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

Appointment and Qualifications of Committee Chair

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

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

H. Meetings

Calling of Meetings

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

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

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

Written resolutions in lieu of a meeting are not permitted.

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

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

Notice of Meetings

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

Notice to the Internal Auditor and External Auditor

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

Frequency

The Committee shall meet at least quarterly.

Quorum

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

Secretary and Minutes

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

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

This Charter was last revised and approved by the Board on June 27, 2006.

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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 and any applicable Canadian securities legislation. These statements include comments with respect to the Bank's objectives, strategies to achieve those objectives, expected financial results (including those in the area of risk management), and the outlook for the Bank's businesses and for the Canadian, United States and global economies. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intent," "estimate," "plan," "may increase," "may fluctuate," and similar expressions of future or conditional verbs such as "will," "should," "would" and "could."

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. 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; operational and reputational risks; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; the Bank's ability to expand existing distribution channels and to develop and realize revenues from new distribution channels; the Bank's ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital markets activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; consolidation in the Canadian financial services sector; changes in tax laws; competition, both from new entrants and established competitors; 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; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. For more information, see the discussion starting on page 53 of the Management's Discussion & Analysis.

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.

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

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

December 19, 2006

Financial results

Scotiabank again achieved record results in 2006 and exceeded all of its financial and operational targets. Asset growth was robust, acquisitions in Central and South America made a solid contribution to earnings, and credit quality remained stable. These positive impacts were partly offset by lower interest margins, and the negative impact of foreign currency translation.

Earnings per share (diluted) were $3.55, up 13% from $3.15 in 2005. Net income available to common shareholders was a record $3,549 million, $365 million higher than last year. This strong performance boosted return on equity to 22.1%, its highest level in recent years.

Total revenues rose 9% year over year. Net interest income was up 11%, as we continued to see very strong organic and acquisition-related retail loan growth, both domestically and in the international portfolio. This growth was partly offset by the negative effect of foreign currency translation, and a decline in the overall net interest margin primarily due to higher funding costs. Other income grew 6% this year, as increases in retail fees and record trading revenues were partly offset by a decrease in credit fees and lower gains on the sale of investment securities.

Credit quality in the Bank's loan portfolios remained stable, and we continued to benefit from favourable conditions. Net impaired loans declined year over year, while the specific provision for credit losses was basically unchanged from last year. A $60 million reduction in the general allowance for credit losses was recorded during the year, compared to $45 million in 2005.

Expenses were up 7% from last year. Much of the increase related to acquisitions and growth in business volumes, expenditures to support revenue initiatives, and higher performance-and stock-based compensation. This was partly offset by the effect of foreign currency translation. Our productivity ratio, at 55.3%, continued to lead the industry, and improved slightly year over year.

The overall tax rate was 19.2%, down from 20.5% last year, due mainly to a greater proportion of income earned by foreign subsidiaries in lower tax jurisdictions, and higher levels of tax-exempt dividend income.

Our capital position remains strong, as we continue to generate significant capital from operations. Our Tier 1 capital ratio, at 10.2%, remains among the highest of the major Canadian banks. Our tangible common equity ratio, a key measure of capital strength, was 8.3%, down from last year due to acquisitions and strong asset growth.

Strong shareholder returns

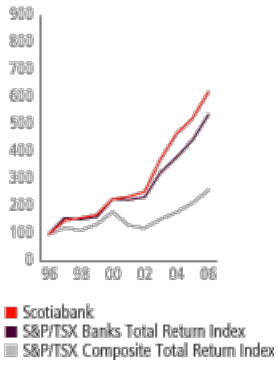
Solid financial performance continued to drive our strong shareholder returns. Total return (including both dividends and appreciation of the price of the Bank's common shares) was 18% in 2006. Shareholders have had positive annual returns from the Bank's shares for 12 consecutive years, the best record among Canada's major banks. Long-term returns have also been excellent. The compound annual return on the Bank's shares over the past five years has averaged 21%, and 20% over the past 10 years. We remain focused on achieving sustainable, long-term earnings growth and a high return on equity.

We continue to outperform the S&P/TSX Composite Total Return Index by a wide margin; our compound annual return has been nearly double that of the index over the past 10 years.

Shareholders also received two quarterly dividend increases during the year. Dividends per share totalled $1.50, an increase of 14% from 2005.

Return to common shareholders

Share price appreciation plus dividends reinvested, 1996 = 100



Total shareholder return

For the year ended October 31	**2006**	2005	2004	2003	2002	**5-yr CAGR (1)**
Closing market price per common share ($)	**49.30**	42.99	39.60	32.74	22.94	**17.6%**
Dividends paid ($ per share)	**1.50**	1.32	1.10	0.84	0.73	**19.3%**
Dividends paid (%)	**3.5**	3.3	3.4	3.7	3.2	
Increase in share price (%)	**14.7**	8.6	21.0	42.7	4.6	
Total annual shareholder return (%) (2)	**18.4**	12.1	24.7	46.8	7.8	**21.2%**

(1) Compound annual growth rate (CAGR)

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

OVERVIEW

Impact of foreign currency translation

The movement in foreign currency exchange rates again had a negative effect on the Bank's earnings in 2006. The Canadian dollar appreciated 7% relative to the U.S. dollar, and 5% against the Mexican peso. The dollar also strengthened against the Jamaican dollar and many other currencies in which the Bank conducts its business.

Changes in the average exchange rates affected net income as shown in the following table:

Average exchange rate	**2006**	2005	2004
U.S.dollar/Canadian dollar	**0.8782**	0.8217	0.7586
Mexican peso/Canadian dollar	**9.5422**	9.0523	8.5968

Impact on income ($ millions)	**2006 vs. 2005**	2005 vs. 2004
Net interest income	**$ (202)**	$ (164)
Other income	**(138)**	(123)
Non-interest expenses	**136**	95
Other items (net of tax)	**51**	47
Net income	**$ (153)**	$ (145)
Earnings per share (diluted)	**$ (0.15)**	$ (0.14)

We will continue to take appropriate action to mitigate the effect of foreign currency translation where it is cost-effective to do so. A description of our hedging strategies can be found on page 58.

Impact of acquisitions

The Bank made a number of acquisitions in 2005 and 2006 which contributed to growth in Canada and in our international operations. The impact on selected income statement categories is shown in the following table:

Impact on income ($ millions)	**2006**	2005
Net interest income	**$ 247**	$ 35
Other income	**215**	33
Non-interest expenses	**(304)**	(48)
Other items (net of tax)	**(58)**	(4)
Net income	**$ 100**	$ 16
Earnings per share (diluted)	**$ 0.10**	$ 0.02

Non-GAAP measures

The Bank, like some other 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 uses this form of reporting internally, and believes that this basis for presentation 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 certain measures that are different from comparable GAAP measures, and may not be the same as measures provided by other companies. The amount of the taxable equivalent adjustment was $440 million in 2006, compared to $326 million last year.

Group Financial Performance

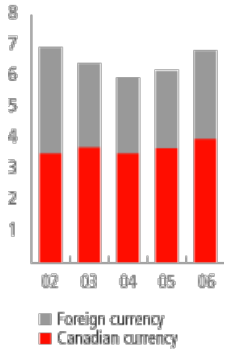
Total revenue

Total revenue (on a taxable equivalent basis) was $11,648 million in 2006, an increase of $922 million or 9% from the prior year. Before the impact of foreign currency translation and acquisitions, the Bank's revenues grew by $868 million or 8%, reflecting growth across all business lines. Domestic Banking had higher revenues due to solid growth in asset volumes and higher wealth management revenues. There were strong results from International Banking, especially in Mexico and the Caribbean. Scotia Capital revenues were up by 10% on the strength of record trading results and higher corporate banking revenues. These improvements were partially offset by lower net gains on the sale of investment securities, and the negative effect of foreign currency translation, as the Canadian dollar continued to appreciate against most currencies in countries in which the Bank operates.

Net interest income

Net interest income on a taxable equivalent basis was $6,848 million in 2006, up $651 million or 11% over last year. Excluding the negative impact of $202 million due to foreign currency translation, net interest income rose $853 million or 14%.

Net interest income by currency
taxable equivalent basis $ billions



The Bank's net interest margin (net interest income as a percentage of average assets) was 1.95% in 2006, down from 2.00% last year.

Canadian currency net interest income was $3,995 million in 2006, an increase of $341 million or 9% from the prior year. This was driven by continued strong growth in personal lending and deposits, including the impact of acquiring the mortgage business of Maple Financial Group and the Canadian operations of the National Bank of Greece. Average retail loan balances rose 11%. This increase was partly offset by a compression of the interest margin due to higher funding costs, caused by a number of factors:

- strong retail asset growth has exceeded retail deposit growth, with the difference funded by more expensive wholesale deposits;
- rising interest rates, which increased the cost of funding longer-term assets such as fixed rate mortgages; and
- a yield curve that has been flat by historic standards.

These negative factors were partially offset by an increase in tax-exempt dividend income.

Table 1 Average balance sheet and interest margin (1)

Taxable equivalent basis(2) For the fiscal years ($ billions)	2006 **Average balance**	2006 **Average rate**	2005 Average balance	2005 Average rate
Assets				
Deposits with banks	**$ 21.0**	**4.20%**	$ 18.0	3.59%
Securities	**87.7**	**5.21**	72.1	4.76
Loans:				
Residential mortgages	**81.8**	**5.25**	71.6	5.02
Personal and credit cards	**36.6**	**8.17**	33.8	7.09
Business and government	**62.8**	**6.83**	57.4	5.65
Securities purchased under resale agreements	**23.6**	**4.67**	23.0	3.55
	204.8	**6.19**	185.8	5.41
Total earning assets	**313.5**	**5.78**	275.9	5.12
Customers' liability under acceptances	**9.0**	**—**	7.4	—
Other assets	**28.2**	**—**	26.1	—
Total assets	**$ 350.7**	**5.17%**	$ 309.4	4.56%
Liabilities and shareholders' equity				
Deposits:				
Personal	**$ 88.4**	**3.00%**	$ 81.3	2.75%
Business and government	**126.8**	**3.71**	106.6	2.66
Banks	**28.5**	**4.31**	23.6	2.90
	243.7	**3.52**	211.5	2.72
Obligations related to securities sold under repurchase agreements	**28.5**	**4.98**	26.6	4.54

Subordinated debentures	**2.4**	**5.50**	2.6	5.14
Capital instrument liabilities	**0.8**	**7.10**	0.8	7.10
Other interest-bearing liabilities	**25.4**	**4.27**	21.7	3.60
Total interest-bearing liabilities	**300.8**	**3.75**	263.2	3.01
Other liabilities including acceptances	**33.3**	**—**	30.5	—
Shareholders' equity	**16.6**	**—**	15.7	—
Total liabilities and equity	**$ 350.7**	**3.22%**	$ 309.4	2.56%
Interest margin		**1.95%**		2.00%

(1) Average of daily balances.

(2) Refer to the non-GAAP measures on page 28.

Net interest income and margin(1)

($ millions, except percentage amounts)	**2006**	2005	2004	2003
Average assets	**350,700**	309,400	284,000	288,500
Net interest income(1)	**6,848**	6,197	5,975	6,246
Net interest margin	**1.95%**	2.00%	2.10%	2.16%

(1) Taxable equivalent basis

Foreign currency net interest income was $2,853 million this year, $310 million above 2005, despite a $202 million negative impact due to foreign currency translation. Excluding this impact, net interest income rose by $512 million or 20%. This reflected the impact of the acquisitions in Peru this year, as well as the full year impact of the acquisition of Banco de Comercio in El Salvador. There was continued strong asset growth in International Banking, particularly in Mexico and the Caribbean. Scotia Capital's assets also increased due to loan

growth in the United States, as well as the purchase of asset-backed retail auto loans from General Motors Acceptance Corporation (GMAC), a significant provider of consumer auto financing in the U.S. The positive impact of this broad-based asset growth was partially offset by a decrease in the interest margin. High levels of liquidity and competition generally have combined to put downward pressure on corporate banking spreads. This was partly offset by an increase in interest recoveries in the U.S. and Europe. The margin in Caribbean and Central America also fell slightly, reflecting the impact of rising U.S. dollar interest rates in a number of jurisdictions.

Outlook

Canadian currency net interest income is expected to continue to increase due to volume growth. Interest rates are expected to decline in the latter half of next year, which should provide some margin relief. However, the yield curve is expected to remain relatively flat and the market is expected to remain very competitive. Foreign currency net interest income is also expected to grow, reflecting the impact of acquisitions made in 2006 in Peru and Costa Rica, as well as continued growth in local currency assets, particularly in the Caribbean and Mexico.

Other income

Other income was $4,800 million in 2006, an increase of $271 million or 6% from 2005, notwithstanding a reduction of $138 million from foreign currency translation. Excluding this impact, year-over-year growth was $409 million or 9%, due in part to acquisitions, particularly in Peru.

Credit card revenues were a record $307 million in 2006, an increase of 22% from last year. International revenues increased by 49% due to acquisitions in Peru and El Salvador, the purchase of a credit card portfolio in the Dominican Republic, and strong growth in transaction volumes in Mexico and the Caribbean. Domestic revenues were up 9% from 2005 levels.

Revenues from deposit and payment services, which represent revenues earned from retail, commercial and corporate customers, grew by 9% to $766 million in 2006. Domestic revenues were 5% higher than last year due both to pricing changes and growth in the customer base. International revenues increased by 25%, with about half of the growth coming from the acquisitions in Peru, and most of the balance from Mexico and El Salvador.

Mutual fund fees were a record $241 million in 2006, an increase of 25% from 2005. This reflected higher average balances and a shift in the mix to more profitable equity and balanced funds.

Revenues from investment management, brokerage and trust services were $666 million in 2006, an increase of 11% from last year. Retail brokerage commissions rose to a record $481 million.

Many sources of other income

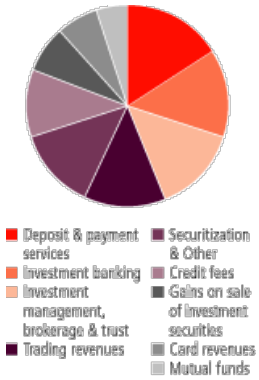


Table 2 Other income

For the fiscal years ($ millions)	2006	2005	2004	2003	2006 versus 2005
Card revenues	**$ 307**	$ 251	$ 231	$ 204	**22%**
Deposit and payment services	**766**	701	646	593	**9**
Mutual funds	**241**	193	171	161	**25**
Investment management, brokerage and trust	**666**	600	504	455	**11**
Credit fees	**530**	542	583	684	**(2)**
Trading revenues	**637**	594	476	501	**7**
Investment banking	**659**	680	648	673	**(3)**
Net gain on investment securities	**371**	414	477	159	**(10)**
Securitization revenues	**43**	79	111	140	**(46)**
Other	**580**	475	473	445	**22**
Total other income	**$ 4,800**	$ 4,529	$ 4,320	$ 4,015	**6%**
Percentage increase (decrease) over previous year	**6%**	5%	8%	2%	

ScotiaMcLeod full-service revenues increased 10%, mainly from higher Partnership Plus revenues, managed account fees and mutual fund trailer fees. ScotiaMcLeod Direct commissions grew by 24%, due to higher customer trading volumes. As well, retail brokerage commissions in International Banking rose 22%, mainly in Mexico. Private client investment management fees were also higher, reflecting continued growth in assets under management by Scotia Cassels.

Credit fees declined $12 million to $530 million in 2006. Excluding the negative $20 million effect of foreign currency translation, credit fees

rose $8 million or 2% from last year. International Banking credit fees increased 17%, mainly because of growth in the Caribbean and Central America and acquisitions in Peru and El Salvador. In Global Corporate and Investment Banking, credit fees declined due to lower loan syndication activity, and a competitive lending environment. This was partially offset by higher acceptance fees in Canada.

Trading revenues were a record $637 million in 2006, an increase of $43 million or 7% over the previous record achieved last year. This was driven by growth in fixed income and precious metals trading. Lower foreign exchange trading revenues in International Banking were partially offset by record foreign exchange trading revenues in Scotia Capital.

Investment banking revenues were $659 million in 2006, a decline of $21 million or 3% from last year. Underwriting fees fell by $51 million or 13%, as a weaker new issue market was only partially offset by higher M&A fees, including the full-year impact of the 2005 acquisition of Waterous & Co. Institutional brokerage fees reached record levels, increasing $11 million, and non-trading foreign exchange revenues were $19 million above 2005, due to growth in both Domestic and International Banking.

The net gain on the sale of investment securities was $371 million in 2006, a decline of $43 million or 10% from last year. In 2006, the Bank recorded a $48 million pre-tax gain on the sale of a portion of its investment in Shinsei Bank in Japan, compared to a gain of $118 million realized last year. There were also lower net gains from the sale of emerging market securities in International Banking. These were partly offset by higher net gains from other equity investments and stronger results in our merchant capital subsidiary.

Securitization revenues of $43 million in 2006 were $36 million below last year, largely from lower gains on mortgage securiti-zations, as well as the maturity of certain revolving credit card securitizations.

Other revenues were $580 million in 2006, an increase of $105 million from last year. About half of this increase was due to acquisitions in Peru. In addition, there were increased insurance revenues, and higher revenues in Asia and Mexico.

Total trading revenues

Total trading revenues were a record $1,031 million in 2006, up 10% from last year. Derivatives trading was a record of $585 million and contributed 57% of total trading revenue.

Table 3 Trading revenue

Taxable equivalent basis For the fiscal years ($ millions)	**2006**	2005	2004	2003
Reported in:				
Other income	**$ 637**	$ 594	$ 476	$ 501
Net interest income	**394**	340	287	301
Total trading revenue	**1,031**	934	763	802
By trading products:				
Securities trading	**145**	175	112	179
Foreign exchange and precious metals trading	**301**	295	306	280
Derivatives trading	**585**	464	345	343
Total trading revenue	**$ 1,031**	$ 934	$ 763	$ 802
% of total revenues (net interest income plus other income)	**9%**	9%	7%	8%

Outlook

Most retail revenue categories are expected to increase in 2007 reflecting continued growth in Domestic and International Banking, plus the impact of acquisitions made this year. Capital markets revenues are also expected to rise.

Non-interest expenses

Non-interest expenses were $6,443 million in 2006, an increase of $400 million or 7% from last year; approximately $260 million of this increase was due to acquisitions. Excluding the impact of these acquisitions, and the positive effect of foreign currency translation of $136 million, non-interest expenses were $280 million or 5% higher than 2005 levels.

Salaries and employee benefits were $3,768 million in 2006, up $280 million or 8% from last year. Excluding the impact of acquisitions and foreign currency translation, salaries increased 6%, reflecting normal growth in employee salaries, and an increase in branches and staff in Canada and Mexico. Performance-based compensation was also higher, reflecting stronger trading revenues in Scotia Capital and an accelerated recognition of stock-based compensation for retirement-eligible executives, as a result of a change in accounting standard (see page 67).

Expenses well controlled

$ millions

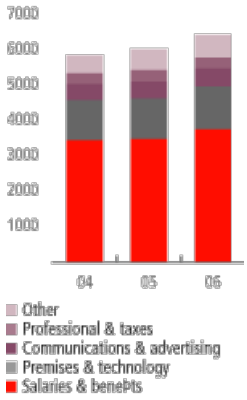


Table 4 Non-interest expenses and productivity

For the fiscal years ($ millions)	**2006**	2005	2004	2003	**2006 versus 2005**
Salaries	**$ 2,100**	$ 1,963	$ 1,933	$ 2,001	**7%**
Performance-based compensation	**936**	880	817	801	**6**
Stock-based compensation	**164**	140	174	119	**17**
Pensions and other employee benefits	**568**	505	528	440	**13**

Total salaries and employee benefits	**3,768**	3,488	3,452	3,361	**8**
Premises and technology	**1,214**	1,148	1,139	1,156	**6**
Communications	**276**	255	248	251	**8**
Advertising and business development	**232**	232	210	199	**—**
Professional	**174**	186	163	141	**(7)**
Business and capital taxes	**133**	147	142	144	**(9)**
Other	**646**	587	508	479(2)	**10**
Total non-interest expenses	**$ 6,443**	$ 6,043	$ 5,862	$ 5,731	**7%**
Productivity ratio (TEB)(1)	**55.3%**	56.3%	56.9%	55.9%	

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 28.

(2) Includes loss of $31 on disposal of subsidiary operations.

Pensions and other employee benefits rose by $63 million, mainly due to higher medical and dental costs and acquisitions.

Premises and technology expenses were $1,214 million in 2006, an increase of $66 million or 6% from last year. The higher premises costs reflected acquisitions and new branches. Technology expenses increased by $30 million or 6%, as the result of a variety of new projects to drive revenue growth in Canada, Mexico and the Caribbean, as well as higher processing costs due to increased business volumes.

Communications expenses were $276 million, an increase of $21 million or 8% year over year, again mainly reflecting the impact of acquisitions, new branches, and higher business volumes.

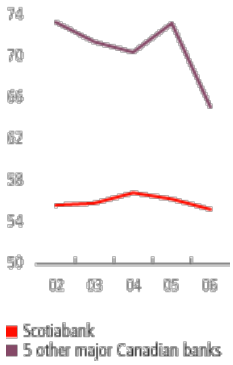
Advertising and business development expenses of $232 million were unchanged from last year.

Professional fees of $174 million declined by $12 million or 7%, due mainly to lower legal fees, partially offset by higher consulting and other professional fees related to acquisitions and other growth initiatives.

Business and capital taxes declined by $14 million to $133 million.

Other expenses were $646 million in 2006, an increase of $59 million or 10% from last year, largely due to the impact of acquisitions in Canada and Central and South America, third-party commissions related to higher mortgage sales and acquisition of new credit card customers, and mutual fund trailer fees. These were partly offset by a recovery of Value Added Tax (VAT) of $51 million in Mexico this year.

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



(Source: published financial data)

GROUP FINANCIAL PERFORMANCE

Our productivity ratio – a measure of efficiency in the banking industry – was 55.3% for the year and remained better than our target of 58%. The ratio improved from 56.3% last year, as we had positive operating leverage, with 9% revenue growth versus 7% expense growth.

Outlook

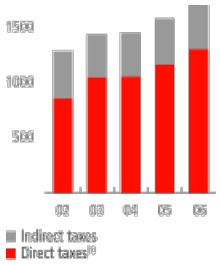
Cost discipline will continue to be a priority, although there will be ongoing investment in revenue initiatives and acquisitions. The target for our productivity ratio remains at 58% or better.

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 2006, the provision for income taxes and other taxes was $1.7 billion, up $135 million or 9% from last year. Table 30 on page 77 provides details of taxes paid.

Direct and indirect taxes
$ millions



The provision for income taxes was $872 million in 2006, an increase of $25 million or 3% over last year. This resulted from growth of 10% in pre-tax income, mitigated by an increase in the income from foreign subsidiaries with lower tax rates, and higher tax-exempt dividend income. Scotiabank Mexico had higher income and continued to benefit from the utilization of previously unrecognized tax loss carryforwards. The Bank's overall effective tax rate for the year was 19.2%, down from 20.5% last year.

Outlook

The Bank's effective tax rate will likely increase somewhat next year, as Scotiabank Mexico's current unrecognized tax loss carryforwards are expected to be fully utilized in 2007. Overall, the consolidated rate is expected to range from 20% to 23%.

Non-controlling interest

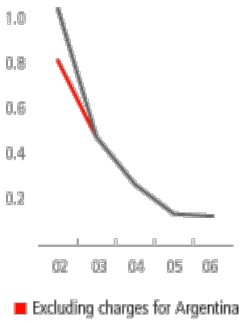
The deduction for non-controlling interest in subsidiaries was $98 million in 2006, an increase of $27 million from 2005, reflecting the acquisitions in Peru and higher earnings in Mexico and the Caribbean and Central America.

Credit quality

Provision for credit losses

The provision for credit losses was $216 million in 2006, down from $230 million last year.

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



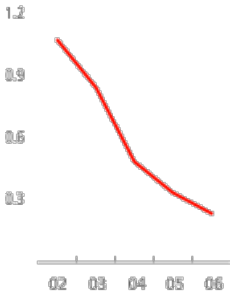
Specific provision for credit losses

The specific provision for credit losses of $276 million was basically unchanged from 2005, and reflects continued strong credit conditions throughout 2006. Domestic Banking provisions were up slightly from last year, reflecting stable credit conditions in both the retail and commercial portfolios. Specific provisions of $60 million in the International Banking portfolios were down $10 million from last year, as a result of lower provisions in the commercial portfolios, which were partially offset by higher retail provisions. Scotia Capital had a slightly lower net recovery in 2006.

Impaired loans

Net impaired loans, after deducting the specific allowance for credit losses, were $570 million at October 31, 2006, a significant decrease of $111 million from a year ago. There was a substantial decline of $255 million in Scotia Capital, partially offset by increases of $62 million in Domestic Banking and $82 million in International Banking.

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



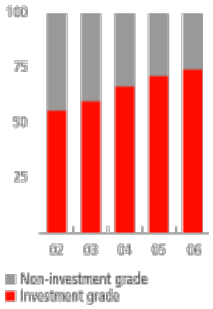
As shown in the chart to the right, net impaired loans as a percentage of loans and acceptances were 0.24% at October 31, 2006, much lower than 0.34% a year ago.

Portfolio review

Corporate and commercial

Scotia Capital's credit performance remained strong on a year-over-year basis, reflecting both the favourable credit conditions prevailing in 2006, and the positive impact of enhanced risk and portfolio management strategies implemented over the past few years. Gross impaired loans in Scotia Capital's U.S. portfolio fell by $212 million or 64% to $119 million. Gross impaired loans also declined in Europe by $104 million or 47% to $116 million, and remained stable in Canada at $18 million. The improvement in gross impaired loans is attributed to a lower level of new classifications and a significant amount of loans returning to performing status.

Corporate loan portfolio
Investment grade(1) vs. non-investment grade (%)



(1) Based on the Bank's risk rating of loan facilities

Scotia Capital had a net recovery of specific provisions of $63 million in 2006 compared to $71 million in 2005. Each of Scotia Capital's Canadian, U.S. and European regions reported recoveries, with Europe reporting the most improvement, and the U.S. reporting lower net recoveries year over year.

The percentage of investment grade equivalent loans in the Scotia Capital portfolio continues to show year-over-year improvement. This improvement has been achieved while expanding the portfolio over each of the last three years.

The credit quality of the Domestic commercial loan portfolio remained stable, given the growth in the portfolio. Gross impaired loans increased by $62 million to $263 million, spread across several accounts throughout the year. Provisions increased slightly compared to last year.

In International commercial banking, the credit quality of the portfolio also remained stable. Gross impaired loans increased

Table 5 Impaired loans by business line

As at October 31 ($ millions)	2006 Net	2006 Allowance for credit losses	2006 Gross	Gross Impaired Loans 2005	2004	2003	2002
Domestic							
Retail	**$ 130**	**$ (244)**	**$ 374**	$ 311	267	$ 292	$ 287
Commercial	**115**	**(148)**	**263**	201	170	184	225
	245	**(392)**	**637**	512	437	476	512
International(1)							
Mexico	**(58)**	**(271)**	**213**	190	223	398	464
Caribbean and Central America	**230**	**(145)**	**375**	369	324	346	472
South America	**34**	**(323)**	**357**	101	114	168	388
Asia and Europe	**1**	**(34)**	**35**	72	137	205	248
	207	**(773)**	**980**	732	798	1,117	1,572
Scotia Capital							
Canada	**2**	**(16)**	**18**	25	52	199	127
United States	**45**	**(74)**	**119**	331	701	1,084	1,688
Europe	**71**	**(45)**	**116**	220	212	386	113
	118	**(135)**	**253**	576	965	1,669	1,928
Gross impaired loans			**1,870**	1,820	2,200	3,262	4,012
Allowance for credit losses – specific and country risk(1)		**(1,300)**		(1,139)	(1,321)	(1,740)	(1,917)
	$ 570			$ 681	$ 879	$ 1,522	$ 2,095
Allowance for credit losses – general	**(1,307)**	**(1,307)**		(1,330)	(1,375)	(1,475)	(1,475)
Net impaired loans after general allowance	**$ (737)**			$ (649)	$ (496)	$ 47	$ 620
Net impaired loans(2) as a % of loans and acceptances	**0.24%**			0.34%	0.49%	0.85%	1.08%
Specific allowance(1) for credit losses as a % of gross impaired loans	**70%**			63%	60%	53%	48%

(1) Includes designated emerging market gross impaired loans and offsetting country risk allowance as follows: 2003 – $21; 2002 – $25.

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

Table 6 Specific provisions for credit losses by business line

For the fiscal years ($ millions)	2006	2005	2004	2003	2002
Domestic					
Retail	**$ 229**	$ 225	$ 207	$ 204	$ 197
Commercial	**50**	49	110	68	85
	279	274	317	272	282
International					
Mexico	**27**	34	6	2	(56)
Caribbean and Central America	**15**	23	63	86	71
South America(1)	**14**	15	(12)	(33)	492
Asia and Europe	**4**	(2)	13	18	16
	60	70	70	73	523
Scotia Capital					
Canada	**(6)**	(12)	(15)	124	37
United States	**(41)**	(93)	54	270	1,131
Europe	**(16)**	34	67	155	79
	(63)	(71)	106	549	1,247
Other	**—**	2	(3)	(1)	(23)
Total	**$ 276**	$ 275	$ 490	$ 893	$ 2,029

(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 7 Provisions for credit losses as a percentage of average loans and acceptances

For the fiscal years (%)	2006	2005	2004	2003	2002
Domestic					
Retail	**0.20%**	0.22%	0.23%	0.26%	0.28%
Commercial	**0.22**	0.23	0.53	0.32	0.41

	0.20	0.22	0.28	0.27	0.30
International(1)	**0.16**	0.23	0.23	0.23	1.41
Scotia Capital(2)	**(0.25)**	(0.31)	0.42	1.60	3.04
Weighted subtotal — specific provisions	**0.13**	0.14	0.27	0.48	1.05
General provision	**(0.03)**	(0.02)	(0.05)	—	—
Weighted total	**0.10%**	0.12%	0.22%	0.48%	1.05%

(1) Includes reversals of $64 in 2003 and charges of $454 in 2002 relating to Argentina, including cross-border exposure.

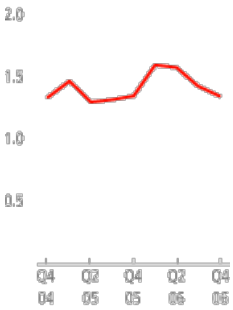
(2) Corporate banking only.

by $156 million, due primarily to the acquisitions of Banco Wiese Sudameris and Banco Sudamericano in Peru and Corporacion Interfin in Costa Rica during the year. In 2006, there were lower provisions in the commercial portfolios in Mexico and the Caribbean.

Domestic retail

The overall credit quality of the consumer portfolio in Canada continues to be excellent. Despite an increase of $63 million in gross impaired loans in the retail portfolio to $374 million, retail delinquency rates remained basically unchanged from last year at 1.36%. Portfolio quality continues to benefit from high levels of security, with 90% of retail loans being secured by an underlying asset such as a house or car. This high level of security reflects the growth in Scotia Total Equity Plan lending, where all products, even lines of credit and credit cards, are secured. Currently, 64% of the ScotiaLine line of credit and ScotiaLine VISA* portfolios are secured.

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



The provision for credit losses in the Domestic retail portfolio was $229 million, up $4 million or 2% from last year. This small increase was well below the rate of loan growth, which exceeded 10%. The provision for credit losses as a percentage of average loans improved by 2 basis points year over year to 0.20%, and continues to be among the lowest of the Canadian banks.

* VISA Int./Lic. User The Bank of Nova Scotia

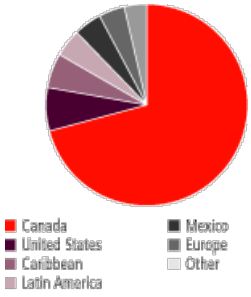
International retail

Credit quality is at acceptable levels within the risk tolerances that have been set for our International retail portfolio. Total reportable delinquency declined 45 basis points to 4.41%. Gross impaired loans increased by $92 million, largely as a result of the acquisitions discussed above as well as organic growth. Provisions for credit losses have increased year over year, largely as a result of significant loan growth.

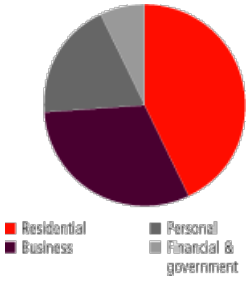
Risk diversification

The Bank's exposures to various countries and types of borrowers are diversified, as shown in the following charts and in Tables 14 and 19 on pages 68 and 70. Table 14 shows loans

Well diversified in Canada, and internationally...
loans & acceptances, excl. reverse repos, September 2006



...and in household and business lending
loans & acceptances, excl. reverse repos, September 2006



and acceptances by geography. Ontario represents the largest Canadian exposure at 40% of the total. Outside of Canada, the United States has the largest concentration with 7% of the total.

Table 19 shows loans and acceptances by type of borrower. Excluding loans to households, the largest concentrations were in: financial services (6.4%); wholesale and retail (5.0%); and real estate and construction (3.4%).

The Bank actively monitors industry concentrations. The North American automotive industry is a sector that the Bank continues to carefully monitor, due to a number of challenges in both the manufacturer and supplier segments. The forestry industry also continues to exhibit signs of stress. The Bank does not have significant concerns with the level of its exposure to either of these two industries, due to proactive decisions

taken to mitigate risk exposures. As in the case of all industry concentrations, the Bank continues to closely follow developing trends and take additional steps to mitigate risk as warranted.

Risk mitigation

To mitigate exposures in its performing corporate portfolios, the Bank uses loan sales and credit derivatives. In 2006, loan sales totaled $330 million, compared to $655 million in 2005. The auto industry had the largest volume of loan sales in 2006.

At October 31, 2006, credit derivatives used to mitigate exposures in the portfolios totalled $1,420 million (notional amount), compared to $444 million at October 31, 2005. This increase is indicative of the Bank's active portfolio management program. The industries with significant protection purchased include the media and oil and gas sectors.

Excluding mark-to-market adjustments, the current annualized cost of the credit derivatives outstanding at October 31, 2006 used to mitigate exposures in the loan portfolios is $7.2 million.

General allowance

The general allowance for credit losses was $1,307 million at October 31, 2006, a net reduction of $23 million from a year ago, and represents 0.66% of risk-weighted assets. The Bank considers the impact of a number of factors, including macroeconomic factors, in determining the level of general allowance for credit losses. Certain of these macroeconomic factors improved or stabilized towards the end of the year. As a result of such favourable trends, as well as a continuation of favourable credit conditions, the general allowance was reduced by $60 million, resulting in a reduction in the provision for credit losses in the Consolidated Statement of Income. This was partially offset by an increase of $37 million arising from the acquisitions in Peru.

Outlook

The credit environment has been favourable over the past few years, resulting in low levels of new provisioning and high recoveries. It is unlikely that this environment will continue to prevail. We expect credit losses to rise somewhat in 2007 as recoveries diminish. In addition, growth in the Bank's credit portfolios, both organic and through acquisitions, will contribute to higher specific provisions.

Fourth quarter results

Net income available to common shareholders was $890 million in the fourth quarter, an increase of $87 million or 11% from the same quarter last year, despite a negative impact of $27 million from foreign currency translation. Excluding this impact, net income available to common shareholders rose by $114 million or 14% over last year. The year-over-year increase reflected the impact of several acquisitions as well as widespread growth in retail volumes and other income in both Domestic and International Banking and higher trading revenues. These were partly offset by margin compression and lower net gains on the sale of investment securities.

Net income available to common shareholders was $38 million below last quarter's record level. The decrease primarily reflected: higher expenses, due mainly to the VAT recovery in Mexico last quarter; lower net interest income, due primarily to the negative impact of the change in mark-to-market value of non-qualifying derivatives; and lower net investment gains. Partially offsetting these factors were lower credit losses, due to a $60 million (pre-tax) reduction in the general allowance for credit losses, and higher trading revenues.

Total revenue (on a taxable equivalent basis) was $2,999 million in the fourth quarter, an increase of $264 million or 10% over the same quarter last year, notwithstanding a negative foreign currency translation impact of $71 million or 3%.

Net interest income (on a taxable equivalent basis) was $1,783 million in the fourth quarter, an increase of $202 million or 13% over the same quarter last year, but $33 million below the third quarter.

The Bank's net interest margin was 1.89% in the fourth quarter, a decrease of eight basis points from last year, and nine basis points below last quarter. This largely reflects the negative impact of a $40 million change in the mark-to-market value of non-qualifying derivatives used for asset-liability management in the fourth quarter of this year.

Other income was $1,216 million in the fourth quarter, an increase of $62 million or 5% from the same quarter last year, due largely to the impact of various acquisitions, especially Peru, and widespread growth from retail products and services. This was partially offset by lower gains on the sale of investment securities and a negative $24 million impact from foreign currency translation.

Quarter over quarter, other income rose by $43 million, due mainly to higher trading, securitization, and investment management and trust revenues. Partially offsetting were lower net gains on the sale of investment securities, and a decline in credit fees.

The provision for credit losses was $32 million in the fourth quarter, compared to $36 million last year and $74 million in the previous quarter. This quarter's provision was composed of $92 million in specific provisions and a reduction of $60 million in the general allowance for credit losses.

The specific provision for credit losses of $92 million in the fourth quarter was up from the $81 million in the fourth quarter of last year and the $74 million in the previous quarter.

Scotia Capital had a net provision of $26 million in the fourth quarter compared to net recoveries of $7 million in the fourth quarter of last year and net recoveries of $19 million in the previous quarter. In Domestic Banking, overall credit quality remained strong, with specific provisions of $58 million, down from $69 million in both the same period last year and the prior quarter. Specific provisions in International Banking of $8 million in the fourth quarter were down from $24 million in the previous quarter, and $16 million in the fourth quarter last year. The decrease from last quarter was due to lower provisions in the Caribbean.

Non-interest expenses were $1,708 million in the fourth quarter, an increase of $129 million or 8% over the same quarter last year, mainly due to acquisitions, partially offset by a positive impact of $34 million from foreign currency translation. Excluding these factors, expenses rose by 5%.

Quarter over quarter, non-interest expenses rose $100 million, mainly due to the $51 million VAT recovery in Mexico last quarter, as well as higher remuneration, technology and advertising expenses.

The Bank's effective tax rate was 18.0% in the fourth quarter, a 240 basis point decrease from the same quarter last year and 220 basis points below the previous quarter. These declines were mainly due to higher income from tax-exempt securities and higher levels of earnings from foreign subsidiaries with lower tax rates.

The deduction for non-controlling interest in subsidiaries was $28 million for the quarter, up $8 million from the same period last year, and $1 million from last quarter, due to higher levels of earnings in majority-owned subsidiaries.

Summary of quarterly results

The Bank's results in each quarter this year were higher than those in the same quarters of 2005. Revenues were higher in each of the quarters of 2006. Positive factors were continued solid retail asset growth in Canada, strong local currency asset growth in International Banking, particularly Mexico, as well as broad-based growth in other income, partly from acquisitions. On the negative side, earnings over the past eight quarters were affected by continued appreciation of the Canadian dollar, margin compression and higher expenses due to acquisitions and spending on initiatives to drive future revenue growth. An eight-quarter trend in net income and other selected information is provided on page 79.

Group Financial Condition

Balance sheet

Assets

The Bank's total assets at October 31, 2006, were $379 billion, up $65 billion or 21% from last year, or $71 billion excluding the impact of foreign currency translation. This was primarily from growth in retail and commercial loans, as well as securities.

Securities

Securities increased by $22 billion from last year. Investment securities were up $10 billion, due primarily to the purchase of U.S. retail automotive asset-backed securities. Trading securities were $12 billion higher than last year, mainly in Scotia Capital, to support customer-driven activity and trading operations.

As at October 31, 2006, the surplus of the market value over book value of the Bank's investment securities was $1,001 million, down $34 million from last year. A breakdown of the surplus is shown in Table 32 on page 77.

Loans

The Bank's loan portfolio grew $38 billion or 19%. Domestic residential mortgages led this growth with a $16 billion increase, before securitization of $4 billion, reflecting a strong domestic economy, and the continued focus by the Bank on its sales and service program. The Bank's expanded broker channel contributed $5 billion to the residential mortgage growth during the year, mainly through the acquisition of the mortgage business of the Maple Financial Group. Mortgage balances also rose in International Banking due to acquisitions in Central and South America, and strong organic growth. Personal loans increased $4 billion from last year, with $1 billion due to the ScotiaLine product. Residential mortgages and retail loans now make up 56% of total loans, compared to 42% five years ago.

Loan portfolio
loans & acceptances,
$ billions



Business and government loans rose $14 billion from last year. Loans in Scotia Capital were up $7 billion, mainly in corporate lending. This included the purchase of a $1 billion precious metal loans portfolio by ScotiaMocatta, further strengthening its position as a global leader in bullion sales and trading. In International Banking, business and government loans increased in most locations, with Latin America up $2 billion, mainly from acquisitions in Peru and Costa Rica.

Table 8 Condensed Balance Sheet

As at October 31 ($ billions)	**2006**	2005	2004	2003	2002
Assets					
Cash resources	**$ 23.4**	$ 20.5	$ 17.1	$ 20.6	$ 20.3
Securities	**95.5**	73.5	58.8	63.2	56.2
Loans	**228.5**	191.0	171.8	171.7	185.7
Other	**31.6**	29.0	31.5	30.4	34.2
Total assets	**$379.0**	$314.0	$279.2	$285.9	$296.4
Liabilities and shareholders' equity					
Deposits	**$263.9**	$217.4	$195.2	$192.7	$195.6
Obligations related to securities sold under repurchase agreements	**33.5**	26.0	19.4	28.7	31.9
Other liabilities	**61.0**	51.1	44.7	45.2	49.0
Subordinated debentures	**2.3**	2.6	2.6	2.7	3.9
Capital instrument liabilities	**0.8**	0.8	2.3	2.5	2.2
Total liabilities(1)	**$361.5**	$297.9	$264.2	$271.8	$282.6
Shareholders' equity	**$ 17.5**	$ 16.1	$ 15.0	$ 14.1	$ 13.8
Total liabilities and shareholders' equity	**$379.0**	$314.0	$279.2	$285.9	$296.4

Liabilities

Total liabilities were $361 billion as at October 31, 2006, an increase of $64 billion or 21% from last year, or $69 billion excluding the impact of foreign currency translation.

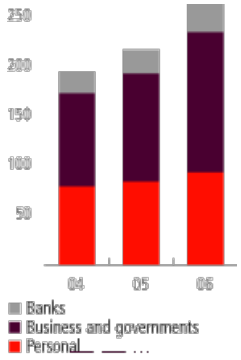
Deposits

Personal deposits increased by $9 billion, led by $4 billion growth in domestic personal GICs, and $3 billion from acquisitions made in 2006. Business and government deposits were up $32 billion, primarily to fund the Bank's strong asset growth in 2006.

Obligations related to repurchase agreements

Obligations related to repurchase agreements are another source of wholesale funding and increased $7 billion in 2006.

Deposits
$ billions



Shareholders' equity

Total shareholders' equity rose $1.5 billion in 2006. The increase was primarily from a high level of internally generated capital of $2.1 billion, partially offset by the cost of share repurchases and the net unrealized foreign currency translation losses arising from the stronger Canadian dollar.

Outlook

For 2007, we are expecting a more modest increase in retail assets in Canada, in line with slower economic growth, and continued growth in our commercial and corporate portfolios. Outside Canada, growth in local currency assets in most international operations is expected to continue, although asset growth levels may moderate with slower global economic growth.

Capital management

Scotiabank maintains a strong capital base to support the risks associated with its diversified businesses. The Bank's capital ratios remain among the highest of its Canadian peer group. This strength contributes to safety for the Bank's customers, fosters investor confidence and supports high credit ratings. In addition, the Bank's practice is to remain well capitalized in order to take advantage of growth opportunities as they arise. Strong capital also provides for the potential to enhance shareholder returns through increased dividends or share repurchases.

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). Bank regulatory capital consists of two components — Tier 1 capital and Tier 2 capital — both of which are described below. Both components of capital provide support for banking operations and protect depositors. Tier 1 capital, which is more permanent, is of particular importance to regulators, financial markets and investors.

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

Tier 1 capital

Tier 1 capital consists primarily of common shareholders' equity, non-cumulative preferred shares and innovative structures such as trust securities. Tier 1 capital rose to $20.1 billion, an increase of $2.0 billion over last year:

- Retained earnings grew by $1.7 billion, net of the cost of the repurchase of common shares of $324 million.
- The Bank issued $750 million of Scotiabank Trust Securities, Series 2006-1, through Scotiabank Capital Trust.
- Partially offsetting the above were: a net increase of $360 million in cumulative unrealized foreign currency translation losses, due to the strengthening of the Canadian dollar; and an increase of $375 million in goodwill associated with the Bank's acquisitions in 2006.

Over the past five years, the Bank has created $8.2 billion of internally generated capital, despite raising dividends by 138% during this period. This level of internal capital generation has consistently been among the highest of the Canadian banks.

Table 9 Regulatory capital

As at October 31 ($ millions)	**2006**	2005	2004	2003	2002
Tier 1 capital					
Common shareholders' equity	**$16,947**	$15,482	$14,685	$13,814	$13,502
Innovative capital instruments (1)	**3,000**	2,250	2,250	2,500	2,225
Non-cumulative preferred shares	**600**	600	300	300	300
Non-controlling interest in subsidiaries	**435**	306	280	326	662
Less: Goodwill	**(873)**	(498)	(261)	(270)	(299)
	20,109	18,140	17,254	16,670	16,390
Tier 2 capital					
Subordinated debentures (net of amortization)	**2,046**	2,420	2,493	2,595	3,372
Eligible amount of general allowance (2)	**1,307**	1,330	1,317	1,352	1,448
	3,353	3,750	3,810	3,947	4,820
Less: Investments in associated corporations and other items	**(476)**	(358)	(200)	(209)	(250)
Total capital	**$22,986**	$21,532	$20,864	$20,408	$20,960
Total risk-weighted assets ($ billions)	**$ 197.0**	$ 162.8	$ 150.5	$ 154.5	$ 165.4
Capital ratios					
Tier 1 capital ratio	**10.2%**	11.1%	11.5%	10.8%	9.9%
Total capital ratio	**11.7%**	13.2%	13.9%	13.2%	12.7%
Assets to capital multiple	**17.1**	15.1	13.8	14.4	14.5

(1) Includes $2.75 billion of Scotiabank Trust Securities (Scotia BaTS), and preferred shares issued by Scotia Mortgage Investment Corporation.

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

Table 10 Changes in regulatory capital

For the fiscal years ($ millions)	**2006**	2005	2004	2003	2002
Total capital, beginning of year	**$21,532**	$20,864	$20,408	$20,960	$21,340
Internally generated capital					
Net income	**3,579**	3,209	2,908	2,422	1,708
Preferred and common share dividends	**(1,513)**	(1,342)	(1,126)	(865)	(748)
	2,066	1,867	1,782	1,557	960

External financing

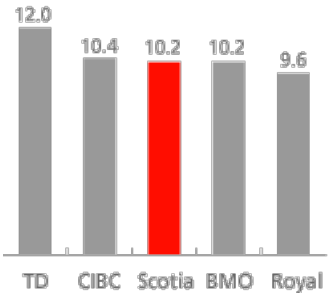
Debentures (net of amortization)	**(374)**	(73)	(102)	(777)	(1,561)
Preferred shares	**—**	300	—	—	—
Innovative capital instruments(1)	**750**	—	(250)	275	250
Common shares and contributed surplus	**108**	88	88	139	82
Purchase of shares and premium on redemption	**(324)**	(973)	(290)	(201)	(154)
	160	(658)	(554)	(564)	(1,383)
Other					
Net unrealized foreign exchange translation gains (losses)	**(360)**	(178)	(709)	(1,176)	(137)
Non-controlling interest in subsidiaries	**129**	26	(46)	(336)	76
Other(2)	**(541)**	(389)	(17)	(33)	104
	(772)	(541)	(772)	(1,545)	43
Total capital generated (used)	**1,454**	668	456	(552)	(380)
Total capital, end of year	**$22,986**	$21,532	$20,864	$20,408	$20,960

(1) Includes $2.75 billion of Scotiabank Trust Securities (Scotia BaTS), and preferred shares issued by Scotia Mortgage Investment Corporation.

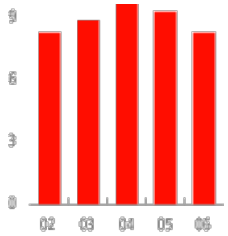
(2) Represents changes to eligible general allowance, regulatory capital deductions for goodwill, investments in associated corporations and securitization-related amounts, and other charges (credits) to retained earnings.

GROUP FINANCIAL CONDITION

Tier 1 capital
% October 31, 2006



Scotiabank's tangible common equity
% October 31



Tier 2 capital

Tier 2 capital consists mainly of subordinated debentures and the eligible portion of the total general allowance for credit losses. Tier 2 capital decreased by $397 million in 2006, due primarily to the redemption of a $300 million debenture due February 2011.

Regulatory capital ratios

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 2006, both of the Bank's regulatory capital ratios remained strong. The Tier 1 and the Total capital ratios as at year end were 10.2% and 11.7%, respectively, 90 and 150 basis points below last year. The declines were due primarily to higher risk-weighted assets, driven by strong growth in loans and mortgages, including the impact of acquisitions made during the year. These ratios continued to exceed OSFI's formal target levels of 7% and 10%. Scotiabank's high capital ratios are the result of prudent capital management and consistent earnings growth driven by a disciplined expansion of risk-weighted assets.

In addition to the regulatory capital ratios, banks are also subject to a maximum leverage test, the assets-to-capital multiple (ACM). The ACM is calculated by dividing a bank's total assets, including specified off-balance sheet items, by its total capital. Under this test, total assets should not be greater than 20 times capital. As at October 31, 2006, the Bank's ACM was 17.1 times, an increase from 15.1 times last year, mainly reflecting the 21% growth in assets.

Tangible common equity ratio

The level of tangible common equity (TCE) is generally considered to be one of the most important measures of a bank's capital strength, and is often used by rating agencies and investors in their assessment of the quality of a bank's capital position. Tangible common equity is calculated by deducting unamortized goodwill and intangibles from common shareholders' equity.

The TCE ratio is calculated by dividing tangible common equity by risk-weighted assets. At year end, the Bank's TCE ratio was 8.3%, 100 basis points lower than the 2005 level, due to acquisitions and organic asset growth. Scotiabank's TCE ratio continued to be strong relative to the other major Canadian banks.

Capital allocation

Besides the regulatory capital framework, the Bank also uses an economic capital framework to allocate capital to the business lines. This allows us to appropriately compare and measure the returns from the business lines, based upon their inherent risk. The economic capital allocation methodology separates risks into three major components – credit risk, market risk and operational risk — and calculates the capital required for each.

The capital allocation models for credit risk use the Bank's internal credit risk ratings for business loans, and credit bureau scoring for retail loans. In addition, the models take into account differences in term to maturity, probabilities of default, expected severity of loss in the event of default, and the diversification benefits of certain portfolios.

Capital related to market risk is based on the internal VAR models used in the trading book, and on stress tests of the Bank's interest rate gap structure, foreign exchange structural exposures, and equity investment portfolios.

Operational risk capital is allocated based on an assessment of both business and event risk in each business line. Economic capital is much more risk sensitive than the existing regulatory capital measures.

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

Capital deployment

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

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

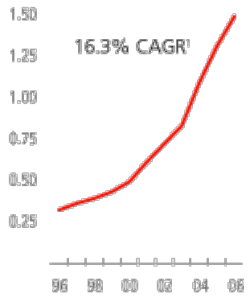
As noted earlier, the Bank expects much of its future growth to come from outside Canada, and we are focusing our acquisition efforts in the Americas, in both traditional retail and commercial banking and in complementary businesses such as wealth management and insurance. In Asia, we will continue to explore opportunities in retail and commercial banking, particularly in China, India, Thailand and Malaysia.

In Canada, we will pursue acquisitions to bolster our wealth management business and to increase market share in selected product areas.

Dividends

Our record of strong earnings growth and our capital position allowed us to increase our quarterly dividend twice in 2006. On a year-over-year basis, dividends rose by 14% to $1.50 per share, and have risen at a compound annual rate of 16.3% over the past 10 years. The dividend payout ratio for 2006 was 42%, up from 41% last year, and within the Bank's target payout range of 35% to 45%.

Dividend growth
dollars per share



1 Compound annual growth rate (CAGR)

Share buyback program

In January 2006, the Bank renewed its normal course issuer bid on the Toronto Stock Exchange to buy back up to 50 million common shares at prevailing market prices. In fiscal 2006, 7.6 million common shares were repurchased at an average price of $45.71 per share. During 2005, 26.1 million shares were purchased at an average price of $40.51 per share. The normal course issuer bid is expected to be renewed upon its expiry on January 5, 2007, although the maximum share purchase level will likely be reduced.

Share data

Details of the Bank's common and preferred share data, as well as trust securities, are shown in the table below. Further details, including convertability features, are shown in notes 13 and 14 of the consolidated financial statements.

Basel II implementation

In June 2004, the Basel Committee on Banking Supervision released its report entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II). The revised Basel II framework is to be implemented for the Canadian banks effective November 1, 2007, following a five-quarter parallel reporting period. The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing substantive changes in the treatment of credit risk. An explicit new capital charge for operational risk is also being introduced, as well as specific governance and oversight requirements, coupled with increased supervisory review of capital adequacy and additional related public disclosures. As a result of this more risk-based capital attribution approach, potential capital reductions or increases are possible; however, it is too early to predict the full impact at this stage. Any potential reductions in fiscal years 2008 and 2009 will be limited by regulatory capital "floors" of 90% and 80%, respectively, of the current capital adequacy requirements.

Scotiabank has developed a comprehensive implementation program aimed at being in a position to meet regulatory requirements. We commenced a "parallel run" reporting to OSFI for the quarter ended October 31, 2006. All Basel II implementation and development work is under the governance of the Bank's internal Basel II Steering Committee and the program control of our Basel Program Office. We remain committed to completing the necessary tasks to position us for implementation of the framework.

The implementation date in Europe for similar advanced approaches is January 1, 2008, with U.S. implementation currently targeting 2009, and other jurisdictions in which the Bank operates anticipating implementation as far out as 2012. The difference in implementation dates in various countries introduces a degree of additional complexity and uncertainty for major institutions such as Scotiabank that operate in different jurisdictions around the world. This is currently not expected to significantly affect our implementation efforts.

Outlook

Scotiabank expects to maintain strong capital ratios in 2007. Dividends are expected to continue to increase in line with earnings growth. The payout ratio is likely to be at the higher end of the current target range of 35% to 45%.

Share Data

As at October 31 (thousands of shares)	
Class A preferred shares issued by Scotia Mortgage Investment Corporation	**250**(1)
Series 2000-1 trust securities issued by BNS Capital Trust	**500**(1)
Series 2002-1 trust securities issued by Scotiabank Capital Trust	**750**(2)
Series 2003-1 trust securities issued by Scotiabank Capital Trust	**750**(2)
Series 2006-1 trust securities issued by Scotiabank Capital Trust	**750**(2)
Preferred shares Series 12	**12,000**(3)
Preferred shares Series 13	**12,000**(4)
Common shares outstanding	**989,512**(5)
Outstanding options granted under the Stock Option Plans to purchase common shares	**31,839**(5)(6)

(1) Reported in capital instrument liabilities in the Consolidated Balance Sheet.

(2) Reported in business and government deposits in the Consolidated Balance Sheet.

(3) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.328125 per share.

(4) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in the amount of $0.30 per share.

(5) As at December 8, 2006, the number of outstanding common shares and options were 990,933 and 30,267, respectively. The number of other securities disclosed in this table were unchanged.

(6) Included are 15,892 stock options with tandem stock appreciation right (SAR) features.

GROUP FINANCIAL CONDITION

Off-balance sheet arrangements

In the ordinary course of business, the Bank enters into contractual arrangements that, while not required to be included in the Consolidated Balance Sheet, could have a current or future effect on the Bank's results of operations or financial condition. These arrangements fall into three categories: variable interest entities (VIEs), securitizations, and guarantees and loan commitments.

Variable interest entities

Off-balance sheet arrangements with VIEs fall into two main categories:

- VIEs that are used to provide a wide range of services to customers. These include VIEs established to assist clients in securitizing their financial assets (through asset-backed commercial paper conduits) and thereby facilitating cost-efficient financing, and to provide investment opportunities. In addition, the Bank creates, administers and manages personal and corporate trusts on behalf of its customers. The Bank also sponsors and actively manages mutual funds.
- VIEs that are used to provide alternative sources of funding to the Bank and manage its capital position. The Bank securitizes its own assets, primarily residential mortgages. It also issues innovative Tier 1 capital instruments, such as Scotiabank Trust Securities, described in Note 13 to the consolidated financial statements.

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

As at October 31, 2006, total consolidated assets related to VIEs were $13 billion, compared to $6 billion at end of 2005. The majority of this increase related to new funding arrangements. The amounts owed by or to these VIEs were not significant. The Bank earned fees of $16 million and $13 million in 2006 and 2005, respectively, from certain VIEs in which it has a significant variable interest but did not consolidate. More information with respect to the Bank's involvement with VIEs, including details of maximum loss exposure by VIE category, is provided in Note 6 to the consolidated financial statements on pages 103 to 104.

Securitizations

The Bank securitizes a portion of its residential mortgages and personal loans by transferring the assets to trusts. Residential mortgage securitizations are done primarily through the Bank's participation in the Canada Mortgage Bond (CMB) program. If certain criteria are met, these transfers are treated as sales, and the transferred assets are removed from the Consolidated Balance Sheet (this is discussed further in Note 1 to the consolidated financial statements on pages 95 to 99). These securitizations enable the Bank to access alternative funding sources, manage liquidity and other risks, and meet capital requirements. The Bank does not provide liquidity facilities with respect to the CMB program. As such, the Bank is not exposed to significant liquidity risks in connection with these off-balance sheet arrangements.

Securitizations are a cost-effective way to fund the Bank's mortgage growth. The outstanding balance of off-balance sheet securitized mortgages was $11,913 million as at October 31, 2006, compared to $7,801 million last year and $7,523 million two years ago. The growth in 2006 arose primarily from including amounts related to mortgages securitized by Maple Financial Group (Maple) prior to the Bank purchasing Maple in April 2006. The amount of off-balance sheet securitized personal loans was $170 million as at October 31, 2006, compared to $809 million last year and $1,319 million two years ago. The continued decline in the balance is due to ongoing maturities of prior years' securitizations.

Subsequent to the transfer of assets, the Bank may retain interests in securities issued by the trusts, has agreements to make payments to the trusts under certain limited circumstances, maintains relationships with the underlying customers, and provides administrative services to the trusts. Additional information on the commitments to the trusts is disclosed in Note 21 to the consolidated financial statements on pages 117 to 118.

The Bank recorded securitization revenues of $43 million in 2006, compared to $79 million in 2005 and $111 million in 2004. This decrease was due in part to the decline in securitized personal loan balances. Additional information on the amount of securitizations and associated cash flows, servicing fees and retained interests is provided in Note 4(b) to the consolidated financial statements on page 102.

Guarantees and loan commitments

Guarantees and loan commitments are fee-based products that the Bank provides to its customers. Details regarding the nature of these products are as follows:

- Standby letters of credit and letters of guarantee — As at October 31, 2006, these amounted to $18.5 billion, compared to $15.8 billion last year. These are issued at the request of a Bank customer to secure the customer's payment or performance obligations to a third party. The Bank provides partial credit enhancements, in the form of financial standby letters of credit, to commercial paper conduits. As at October 31, 2006, these credit enhancements, which are included within standby letters of credit and letters of guarantee, amounted to $43 million, compared to $27 million last year.
- Liquidity facilities — These generally provide an alternate source of funding to asset-backed commercial paper conduits in the event that a general market disruption prevents the conduits from issuing commercial paper or, in some cases, when certain specified conditions or performance measures are not met. As at October 31, 2006, these facilities amounted to $10.1 billion, an increase of $2.4 billion from a year ago.

- Indemnification contracts — In the ordinary course of business, the Bank enters into many contracts which contain indemni-fication provisions, where the Bank may indemnify contract counterparties for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur. The Bank cannot estimate, in all cases, the maximum potential future amount that may be payable, nor the amount of collateral or assets available under recourse provisions that would mitigate any such payments. Historically, the Bank has not made any significant payments under these indemnities.
- Loan commitments — The Bank has commitments to extend credit, subject to specific conditions, which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities. As at October 31, 2006, these commitments amounted to $106 billion, compared to $100 billion a year earlier. The majority of these commitments are short-term in nature, with original maturities of less than one year.

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

Fees from the Bank's guarantees and loan commitment arrangements, recorded in credit fees in the Consolidated Statement of Income, were $216 million in 2006, compared to $227 million in the prior year. Detailed information on guarantees and loan commitments is disclosed in Note 21 to the consolidated financial statements on pages 117 and 118.

Financial instruments

The Bank's primary business activities result in a balance sheet that consists primarily of financial instruments. Assets that are financial instruments include cash resources, securities, loans and customers' liability under acceptances. Financial instrument liabilities include deposits, acceptances, obligations related to securities sold under repurchase agreements, obligations related to securities sold short, subordinated debentures and capital instrument liabilities. In addition, the Bank uses derivative financial instruments for both trading and asset/liability management purposes. Financial instruments are generally carried at cost, except those held for trading purposes, which are carried at their estimated fair value.

The risks that arise from transacting financial instruments include credit risk, liquidity risk, operational risk and market risk. Market risk arises from changes in interest rates, foreign currency exchange rates and equity prices. The Bank manages these risks using extensive risk management policies and practices, including various Board-approved risk management limits and techniques. A discussion of the Bank's risk management policies and practices can be found in the Risk Management section (see pages 53 to 63).

Further details on the terms and conditions of the Bank's financial instruments are provided in the notes to the 2006 consolidated financial statements. Note 22 (see pages 119 to 122), for example, summarizes the fair value of financial instruments and describes how these amounts were determined. This note also presents the Bank's interest rate risk profile by term, based on the earlier of contractual repricing or maturity dates, and the Bank's financial instrument credit exposure by sector and geography. Note 23 (see pages 122 to 125) provides details about derivatives used in trading activities and asset/liability management, including notional amounts, term to maturity, credit risk and fair values.

The risks associated with the Bank's financial instrument portfolios can be assessed using various methods. For example, the interest rate risk arising from the Bank's non-trading financial instruments can be estimated using the impact of a 100 basis point increase in interest rates on annual income and the present value of net assets as described on page 58. For trading activities, the table on page 59 discloses the average one-day Value at Risk by risk factor. Based on the Bank's maturity profile of derivative instruments, only 12% (2005 — 12%) had a term to maturity greater than five years.

The fair value of the Bank's financial instruments exceeded their book value by $396 million (2005 — $1,248 million) as at October 31, 2006. The year-over-year change in the excess of fair value over book value arises mainly from changes in interest rates. Fair value estimates are based on market conditions at October 31, 2006, and may not be reflective of future fair values. Further information on how fair values are estimated is contained in the Critical Accounting Estimates section (see pages 64 to 67).

The Bank's accounting policies for derivatives and hedging activities are further described in Note 1 (see pages 95 to 99). Interest income and expense on interest-bearing financial instruments are recorded in the Bank's Consolidated Statement of Income as part of net interest income. Credit losses resulting from loans are recorded in the provision for credit losses. Realized gains and losses on disposals of investment securities, as well as writedowns, are recorded in other income, as are net trading gains and losses.

The Canadian Institute of Chartered Accountants has issued new accounting standards on the recognition and measurement of financial instruments, as well as hedges and comprehensive income. These new standards are applicable to the Bank commencing November 1, 2006, and are further described in Note 2 (see page 99).

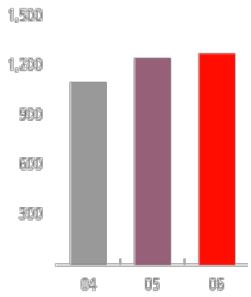
BUSINESS LINES

Business Line Overview

Domestic Banking

Domestic Banking reported net income available to common shareholders of $1,279 million, a 2% increase over last year. Strong growth in retail mortgages, personal lending and deposits was partially offset by a narrowing interest margin. As well, wealth management and credit card revenues grew year over year. Non-interest expenses increased to support revenue growth initiatives, while provisions for credit losses remained well controlled.

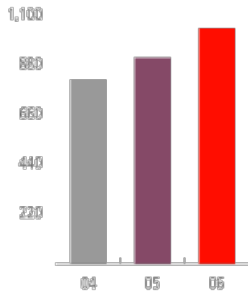
Net income available to common shareholders ($ millions)



Scotia Capital

Scotia Capital had a record year, as net income available to common shareholders rose 14% to $1,047 million in 2006. This result was achieved despite the negative effect of foreign currency translation. The increase was driven by record trading and M&A revenues, as well as interest recoveries and gains on the sale of securities. We continued to benefit from favourable credit conditions, realizing net loan loss recoveries again this year.

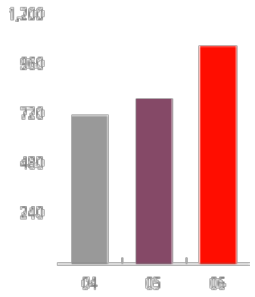
Net income available to common shareholders ($ millions)



International Banking

International Banking had an excellent year in 2006, with net income available to common shareholders of $1,054 million, an increase of 32% from last year, notwithstanding the negative effect of foreign currency translation as a result of the appreciation of the Canadian dollar. Scotiabank Mexico's earnings contribution continued to rise, and acquisitions in Peru and Costa Rica added to earnings. The Caribbean and Central America also had good growth and lower credit losses.

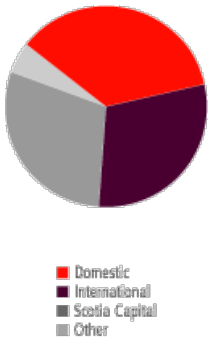
Net income available to common shareholders ($ millions)



Other

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

2006 Net Income



2006 Financial Performance

($ millions)	Domestic Banking(1)	International Banking(1)	Scotia Capital(1)	Other(1)	**Total**
Net interest income	$ 3,682	$ 2,306	$ 951	$(531)	**$ 6,408**
Other income	1,935	939	1,437	489	**4,800**
Provision for credit losses	(279)	(60)	63	60	**(216)**
Non-interest expenses	(3,469)	(1,927)	(955)	(92)	**(6,443)**
Income taxes/non-controlling interest	(581)	(196)	(443)	250	**(970)**
	1,288	1,062	1,053	176	**3,579**
Preferred dividends paid	(9)	(8)	(6)	(7)	**(30)**
Net income available to common shareholders	$ 1,279	$ 1,054	$ 1,047	$ 169	**$ 3,549**
Return on equity(2)(%)	27.8%	23.4%	31.3%	N/A	**22.1%**
Average earning assets ($ billions)	$ 136	$ 56	$ 117	$ 29	**$ 338**

(1) Taxable equivalent basis.

(2) 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

Domestic Banking

2006 Achievements

- Named “Bank of the Year in Canada” for the fourth time in six years by *The Banker* magazine, based on financial performance, technology innovation, and corporate strategy.
- Completed strategic acquisitions that demonstrated an effective use of our capital while augmenting our customer base:
  - the mortgage business of Maple Financial Group Inc., including a $7.9 billion mortgage portfolio (including securitized assets), which doubles originations through the important broker channel.
  - the Canadian operations of the National Bank of Greece.
- Opened 15 new branches and added 125 personal bankers in high-growth markets.
- Scored first in customer service excellence among Canada’s five major banks in six of 11 customer service categories.
- Achieved strong customer loyalty among affluent clients, which reached an all-time high, with 81% of clients rating Scotia Private Client Group performance as “very good” or “excellent.” Our share of wallet for this client segment increased for the third straight year.
- Launched Scotia Blueprint, a proprietary financial planning tool, to increase share of wallet with emerging affluent customers, and improve productivity of financial advisors.
- Launched the new Term Lending System, a real time, web-based platform which enables faster development and launch of mortgage products, and improves the customer experience through streamlined processing.
- Generated strong momentum in mutual fund sales, with our Scotia Selected ® Funds surpassing $1 billion in assets.
- Achieved strong growth in ScotiaMcLeod Direct Investing (SMDI), as average commission per account rose 14%, new accounts and trade volumes were up 4% and 23%, respectively, and assets under administration increased 16% year over year.

2007 Priorities

- Increase share of wallet with existing customers, focusing on the emerging affluent and pre-retirement investor segments.
- Acquire new customers with targeted community-based marketing initiatives, new branches and more financial advisors.
- Proactively pursue acquisitions and alliances to support our strategic objectives.
- Realize growth opportunities in mutual funds, core deposits, credit cards and insurance.
- Continue our focus on improving market share in Commercial Banking with a revitalized business model.
- Improve our small business offering to expand the customer base and realize opportunities for significant growth from capturing owners’ personal business.

Business profile

Domestic Banking provides a full range of banking and investing services to nearly 7 million customers across Canada, through a network of 972 branches and 2,742 ABMs, as well as telephone and Internet banking.

Domestic Banking includes three main businesses. Retail and Small Business Banking provides mortgages, loans, credit cards, investments, insurance and day-to-day banking products to individuals and small businesses. Wealth Management provides a full range of products and services including: retail brokerage (discretionary, non-discretionary and self-directed); investment management advice; mutual funds and savings products; and financial planning and private client services for affluent clients. Commercial Banking delivers a full product suite to medium and large businesses.

Strategy

Our core purpose is to help our customers become financially better off by providing relevant solutions to their unique needs. Domestic Banking’s strategy for growth is to expand our client base, particularly with customer segments that have high-growth potential. As well, we will drive revenue growth by building on our strengths in customer service, execution and cross-business line partnerships, and by making strategic acquisitions.

We are focused on growing business with mid-market investors and small business clients, and capturing primary advisor status with emerging affluent and affluent clients, providing personalized solutions based on a customized financial plan. In Commercial Banking, we are working to finalize the re-engineering of our business, with an emphasis on delivering client-valued, cost-effective solutions.

Key performance drivers

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

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

BUSINESS LINES

Domestic Banking financial performance

($ millions)	2006	2005	2004
Net interest income(1)	**$ 3,682**	$ 3,576	$ 3,494
Other income	**1,935**	1,819	1,671
Provision for credit losses (PCL)	**(279)**	(274)	(317)
Non-interest expenses	**(3,469)**	(3,296)	(3,217)
Income taxes(1)	**(581)**	(566)	(522)
Net Income	**1,288**	1,259	1,109
Preferred dividends paid	**(9)**	(6)	(4)
Net income available to common shareholders	**$ 1,279**	$ 1,253	$ 1,105
Key ratios			
Return on equity (ROE)	**27.8%**	31.0%	30.6%
Productivity(1)	**61.8%**	61.1%	62.3%
Net interest margin (NIM)	**2.70%**	2.90%	3.14%
PCL as a percentage of loans and acceptances	**0.20%**	0.22%	0.28%
Selected balance sheet data (average balances)			
Earning assets	**136,420**	123,224	111,443
Deposits	**107,370**	98,579	91,395
Attributed equity	**4,602**	4,036	3,610

(1) Taxable equivalent basis.

Financial performance

Domestic Banking reported net income available to common shareholders of $1,279 million in 2006, $26 million or 2% higher than last year, with a return on equity of 27.8%. Domestic Banking accounted for 36% of the Bank's total net income. Results included solid performances in wealth management and commercial banking. Strong asset and deposit growth in retail and small business banking was largely offset by margin compression. In addition, we had solid customer retention and a 3% year-over-year increase in our customer base.

Assets and liabilities

Average assets grew 11% in 2006. This was led by a substantial increase in residential mortgage balances (before securitization) of $10 billion or 13%. This mortgage growth included $2 billion from the acquisition of the mortgage business of Maple Financial Group. There were substantial market share gains in mortgages, which rose 136 basis points from last year, and market share in total personal lending was up a strong 82 basis points, due primarily to acquisitions. There was strong year-over-year growth of 14% in personal lines of credit.

Retail and small business deposits grew $6 billion or 8%, due mainly to an increase in term deposit balances, which led to an industry-leading gain in personal deposit market share of 48 basis points from last year. Commercial deposits, including Money Master for business™, rose 15%, continuing the double-digit growth trend of the past several years. There were good market share gains in business accounts over the last year, up 15 basis points.

In Wealth Management, assets under administration rose 6% to $117 billion. Net asset inflows from new customers, continued growth in our share of customers' investment business, and market-driven gains contributed to this growth.

Revenues

Total revenues were $5,617 million, up $222 million or 4% from last year. Net interest income increased by $106 million to $3,682 million in 2006, as a result of strong volume growth in assets and deposits. The net interest margin declined by 20 basis points year over year to 2.70%, largely reflecting higher funding costs caused primarily by rising interest rates and a flattening of the yield curve. In addition, the strong retail asset growth, both organic and through acquisitions, has exceeded deposit growth, with the difference funded by more expensive wholesale deposits.

Total revenue



Other income for the year was $1,935 million, an increase of $116 million or 6%, driven primarily by higher wealth management revenues and increases in retail and small business banking activities.

Retail & Small Business Banking

Selected highlights

($ millions)	**2006**	2005	2004
Total revenue	**$ 3,742**	$ 3,651	$ 3,550
Average residential mortgages (1)	**82,107**	72,589	64,328
Average loans (excluding residential mortgages)	**33,385**	31,123	28,101
Average deposits	**77,948**	72,428	68,125

(1) Includes securitized mortgages.

Total revenues were $3,742 million, up $91 million or 2% from last year. Net interest income rose by $51 million or 2% from growth in assets and deposits, partially offset by a lower margin. Other income rose $40 million or 5%, driven by higher credit card revenues, reflecting growth in cardholder transactions, and higher service fees from chequing and savings accounts, reflecting pricing changes. There was strong revenue growth in small business banking, and we increased market share in this important customer segment.

Commercial Banking

Selected highlights

($ millions)	**2006**	2005	2004
Total revenue	**$ 883**	$ 833	$ 820
Average business loans and acceptances	**18,548**	17,400	17,163
Average business deposits	**24,082**	21,021	17,863

Total revenues rose by $50 million or 6% to $883 million in 2006. Net interest income was 8% higher than last year from strong growth in both assets and deposits. Average assets rose 7% and average deposits increased 15%. Year over year, other income rose 2% to $301 million.

Wealth Management

Selected highlights

($ millions)	**2006**	2005	2004
Total revenue	**$ 992**	$ 911	$ 795
Assets under administration	**117,100**	110,800	96,900
Assets under management	**23,900**	23,100	19,800

Total revenues were $992 million, up $81 million or 9% from last year. Underlying revenue growth for mutual funds was 21%, driven by asset growth of $1.2 billion or 8%, and there was a shift in the mix to more profitable balanced and equity funds. Retail brokerage revenues rose mainly as a result of increased fee-based business and trading volumes. SMDI revenues rose 30%, as trading volumes increased 23%. Private client revenues increased by 10% reflecting growth in managed accounts.

Assets under administration continue to grow, rising 6% during the year, reflecting increases in our mutual fund, private client and retail brokerage businesses. Our Scotiatrust business moved into second place in the personal trust industry.

Non-interest expenses

Non-interest expenses of $3,469 million remained controlled in 2006, up $173 million or 5% from last year. The increase was due mainly to the impact of the acquisitions and growth initiatives, as well as higher volume-related expenses, including credit card rewards, mortgage acquisition fees and mutual fund trailer fees. As well, performance-based compensation rose, reflecting higher retail brokerage volumes and other revenue-based growth.

Credit quality

Provisions for credit losses were $279 million in 2006, a slight increase of $5 million compared to last year. Credit quality remained strong in the retail portfolio, with the ratio of loan losses to average loan balances improving two basis points from last year to 20 basis points. Furthermore, the consumer loan portfolio is 90% secured. Credit quality in the commercial portfolio remained solid, and provisions rose slightly in 2006.

Outlook

We expect to maintain solid growth in assets and deposits next year, which will contribute to higher net interest income. However, in the near term, pressures on the net interest margin are expected to persist, although they should moderate somewhat over the course of the year. Growth in other revenue is expected to come from an increase in deposit accounts, higher credit card transaction volumes and other business initiatives. We expect continued growth in wealth management revenues, particularly mutual funds. Non-interest expenses in 2007 will reflect acquisitions and the ongoing investment in planned growth initiatives. Credit quality is expected to remain stable, with provisions for credit losses increasing in line with the growth in average loans.

International Banking

2006 Accomplishments

- Made strategic acquisitions in attractive markets where we already had a presence:
  - In Peru, we acquired Banco Wiese Sudameris and the remaining shares of Banco Sudamericano, giving us a market share of 17%;
  - Acquired Corporacion Interfin in Costa Rica which, combined with our existing operations, makes us the largest private (non-government) bank in the country, with a 14% market share; and
  - Purchased Citibank's consumer lending business in the Dominican Republic.
- Recognized for our commitment to excellence and customer satisfaction and loyalty:
  - Named Best Bank in Jamaica and the Caribbean by *Latin Finance* magazine;
  - Named Bank of the Year in Jamaica and the Dominican Republic by *Euromoney* magazine; and
  - Interfin was recognized as Bank of the Year in Costa Rica by *The Banker* magazine.
- Continued to aggressively expand our credit card operations:
  - Launched cards in four new markets – Belize, Cayman, St. Maarten and Turks and Caicos;
  - Acquired the Citibank credit card portfolio in the Dominican Republic; and
  - Partnered with the NFL to issue co-branded cards in Mexico. As well, we continued to leverage strategic alliances with loyalty and frequent flyer programs in Mexico and the Caribbean to enhance our value proposition.

2007 Objectives

- Grow customer base by expanding our sales and delivery network, particularly in Mexico, where we are planning to add 85 branches. We are also increasing advertising in Spanish-speaking markets and leveraging our strength in database marketing.
- Continue to actively seek acquisitions in the Caribbean, Central America, Latin America and Asia.
- Continue to aggressively expand our highly profitable credit card operations through new sales channels, strategic partnerships and acquisitions.
- Improve efficiency by consolidating six data centres into one, and complete a major improvement in our communications network throughout the English Caribbean.
- Target small business customers with pilot projects in Mexico, El Salvador and Bahamas.
- Focus on expanding our product offering and delivery channels for both wealth management and insurance services.

Business profile

International Banking operates in more than 40 countries, and includes Scotiabank's retail and commercial banking operations outside of Canada. Through our network of more than 1,200 branches and offices and 2,450 ABMs, as well as telephone and Internet banking, we provide a full range of financial services to almost 5 million customers.

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

Strategy

Our global growth strategy remains focused on: organic growth, through enhanced sales and service delivery, expansion of complementary businesses and improved efficiency; strategic acquisitions; and leadership development.

We are investing in high-growth markets where we anticipate increased demand for financial services, making acquisitions, expanding our delivery network and moving beyond traditional banking into areas such as wealth management and insurance. We are also leveraging proven, bankwide capabilities to expand our product and service offerings, deepen customer relationships and improve sales management and productivity. As well, we are increasing operating efficiency through a shared services approach and common technology platforms. As we grow, we continue to build our management capabilities by adding rigor to the identification of emerging leaders, and providing them with development opportunities.

Key performance drivers

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

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

International Banking financial performance

($ millions)	2006	2005	2004
Net interest income (1)	**$ 2,306**	$ 1,969	$ 1,858
Other income	**939**	793	741
Provision for credit losses (PCL)	**(60)**	(70)	(70)
Non-interest expenses	**(1,927)**	(1,712)	(1,606)
Income taxes/non-controlling interest (1)	**(196)**	(174)	(201)
Net Income	**1,062**	806	722
Preferred dividends paid	**(8)**	(6)	(4)
Net income available to common shareholders	**$ 1,054**	$ 800	$ 718
Key ratios			
Return on equity (ROE)	**23.4%**	21.6%	21.7%
Productivity (1)	**59.4%**	62.0%	61.8%
Net interest margin (NIM)	**4.15%**	3.95%	3.81%
PCL as a percentage of loans and acceptances	**0.16%**	0.23%	0.23%
Selected balance sheet data (average balances)			
Earning assets	**55,510**	49,829	48,897
Deposits	**41,309**	37,219	37,972
Attributed equity	**4,500**	3,706	3,314

(1) Taxable equivalent basis.

Financial performance

International Banking's net income available to common shareholders in 2006 was a record $1,054 million, a substantial increase of $254 million or 32% from last year. This strong growth was achieved notwithstanding the significant negative impact of foreign currency translation. Excluding this impact, net income rose $319 million or 40% year over year. International Banking accounted for 30% of the Bank's total net income. Return on equity increased to 23.4%, up from 21.6% last year.

The most significant contributors to earnings growth were Mexico, the Caribbean and Central America, and our acquisitions in Peru. Mexico's net contribution increased 62% year over year, due mainly to strong loan growth, higher retail banking revenues and the recovery of $51 million of Value Added Tax (VAT). Results in the Caribbean and Central America were bolstered by the impact of our acquisitions in El Salvador, Costa Rica and the Dominican Republic, as well as strong organic loan growth and higher credit card revenues.

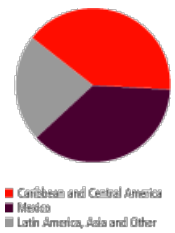
Assets and liabilities

Average assets increased 11% during the year to $56 billion. Excluding the increase resulting from acquisitions, and the negative impact of foreign currency translation, retail loan growth was very strong at 24%. Growth in outstanding credit cards balances was particularly robust, up 38%, spread across the division. Commercial loan growth was a solid 16%, with increases in the Caribbean and Central America, Asia and Mexico. Growth in low-cost savings deposits was also strong at 11%, as deposit balances rose in most Caribbean countries and Mexico.

Revenues

Total revenues were $3,245 million in 2006, an increase of $483 million or 17% from last year. Excluding the negative impact of foreign currency translation, revenues increased $684 million or 25%.

Total revenue



Net interest income was $2,306 million in 2006, an increase of $337 million or 17% from last year, despite a negative foreign currency translation impact of 7% or $144 million. The increase was a result of very strong organic loan growth across the division, as well as the impact of our acquisitions in Peru, the Caribbean and Central America. Margins were up from last year, driven by an increase in Mexico and our acquisitions in Peru.

Other income increased $146 million or 18% year over year to $939 million. Excluding the negative impact of foreign currency translation, the growth was very strong at 26%. This was partly a result of our acquisitions in Peru and the Caribbean and Central America. In addition, there was strong growth in Mexico, the Caribbean and Asia. Partially offsetting these increases were lower gains on the sale of emerging market securities, and gains on sales of business operations and other assets realized in 2005.

Caribbean and Central America

Selected highlights

($ millions)	**2006**	2005	2004
Total revenue	**$ 1,308**	$ 1,174	$ 1,149
Average personal loans	**6,643**	5,675	5,175
Average business loans	**7,356**	6,305	6,294
Average deposits	**12,931**	12,074	11,764

Total revenues were $1,308 million in 2006, an increase of $134 million or 11%, despite the negative 9% impact of foreign currency translation.

Net interest income was $1,020 million in 2006, an increase of $84 million or 9% from last year. Excluding the impact of foreign currency translation and our acquisitions, net interest income increased 15% from last year. This increase was driven by a 22% increase in commercial lending and an 18% increase in retail loans, primarily in credit cards (up 32%) and mortgages (up 22%). Margins were down slightly year over year.

Other income rose $50 million or 21% year over year. Excluding the negative impact of foreign currency translation, other income grew 30%. This was primarily due to a very strong increase of 37% in credit card fees, as the number of cardholders rose 36%, a 38% increase in commercial banking fees, as well as other contributions from our acquisitions. This growth was partly offset by a decline in other fee income; we earned no fees from loan collection services related to the Baninter acquisition in the Dominican Republic, as these services were completed in 2005.

BUSINESS LINES

Mexico

Selected highlights

($ millions)	**2006**	2005	2004
Total revenue	**$ 1,206**	$ 1,054	$ 917
Average personal loans	**3,457**	2,817	2,432
Average business loans	**5,747**	5,262	4,130
Average deposits	**9,769**	8,934	8,383

Total revenues were $1,206 million in 2006, an increase of $152 million or 14%, despite a negative impact of $62 million due to foreign currency translation.

Net interest income was $803 million in 2006, an increase of $112 million or 16% from last year. Excluding the impact of foreign currency translation, net interest income rose 22%. This increase was driven by strong volume growth, including a 54% increase in credit card balances, a 28% increase in mortgages, and a 15% increase in commercial loans. Margins were up slightly from last year, reflecting a change in the mix of assets, with faster growth in higher-spread products such as credit cards and auto loans.

Other income increased $40 million or 11% year over year. Excluding the negative impact of foreign currency translation, other income rose 17%. This was due primarily to a 46% increase in credit card fees, as the number of cardholders rose 37%, a 21% increase in full-service and discount brokerage fees due to higher client trading volumes, and a 17% increase in other retail banking fees.

Latin America, Asia and Other

Selected highlights

($ millions)	**2006**	2005	2004
Total revenue	**$ 731**	$ 534	$ 533
Average personal loans	**1,964**	1,031	880
Average business loans	**7,658**	6,401	7,882
Average deposits	**18,609**	16,211	17,825
Average investment securities	**4,316**	4,504	5,196

Total revenues were $731 million in 2006, an increase of $197 million, due primarily to our acquisitions in Peru. Excluding the negative impact of foreign currency translation and the positive impact of the Peru acquisitions, revenues decreased $38 million from last year. This was primarily due to lower gains on the sale of emerging market securities. In addition, spreads on our emerging market securities fell due to higher funding costs. These were partly offset by a gain on the sale of a foreclosed asset in Asia and an underlying 24% increase in commercial lending volumes in Asia.

Non-interest expenses

Non-interest expenses were $1,927 million in 2006, up 13% or $215 million from last year. Excluding the favourable impact of foreign currency translation and the impact of our acquisitions in Peru and the Caribbean and Central America, expense growth was 7%. This reflects higher technology and compensation expenses in the Caribbean and Central America to support ongoing business growth initiatives. Partly offsetting these factors were lower litigation fees and a 2006 recovery of $51 million of VAT in Mexico.

Credit quality

The provision for credit losses was $60 million in 2006, down 15% from last year. Lower provisions in Mexico, the Caribbean and Chile were partly offset by higher provisions in Asia.

Outlook

We expect earnings in International Banking to continue to grow in 2007, particularly in Mexico, Peru and the Caribbean and Central America. We anticipate growth in assets and deposits, with an increased focus on sales effectiveness, and ongoing expansion of the delivery network. We will continue to pursue acquisitions in key markets.

Scotia Capital

2006 Achievements

- Named Best Investment Bank in Canada by *Global Finance* magazine for the third year in a row.
- For the fourth consecutive year, Scotia Capital's corporate derivatives team was ranked number 1 in Canada by an independent third-party market survey.
- ScotiaFX, our proprietary foreign exchange trading platform, was recognized by *Euromoney* magazine as a Global Top Ten Trading Platform in their 2006 *Annual Poll of Polls*, Internet FX category, in terms of client satisfaction. We were also named Best Foreign Exchange Bank in Canada by *Global Finance* magazine.
- Continued to expand our capital markets capabilities, enhancing our fixed income operations and opening an emerging currency Eurobond desk in London.
- Notable transactions during the year included:
  - Through Scotia Waterous, we acted as exclusive financial advisor to Canadian Natural Resources Ltd in its US$4 billion acquisition of Anadarko Canada Corporation. Scotia Capital also acted as joint lead arranger and joint bookrunner on a $3.8 billion credit facility to finance the transaction.
  - Entered an agreement with General Motors Acceptance Corporation (GMAC) to purchase up to US$20 billion in U.S. retail automotive asset-backed securities over five years, under a US$6 billion revolving credit facility.
  - Through our precious metals division, ScotiaMocatta, completed the acquisition of approximately US$900 million in precious metals loans from Bank of America, further strengthening our position as a global leader in bullion sales and trading.

2007 Priorities

- Continue to build and leverage our NAFTA capabilities, which we consider to be a major competitive advantage.
- Grow product capabilities and provide global client coverage in selected industries, such as mining and oil & gas.
- In Canada, our objective is to generate sustainable revenue growth through broadened client coverage, enabled by our integrated corporate and investment banking coverage model.
- Pursue new clients and target institutional clients such as alternative asset managers.

Business profile

Scotia Capital is the corporate and investment banking arm of the Scotiabank Group, providing full-service coverage across the NAFTA region, as well as other selected niche markets globally. We offer wholesale financial products to corporate, government and institutional investor clients.

Scotia Capital is organized into two main businesses. Global Corporate and Investment Banking provides corporate lending, equity underwriting and mergers & acquisitions advisory services. Global Capital Markets provides products and services in a number of areas: fixed income; derivatives; foreign exchange; equity sales, trading and research; and, through ScotiaMocatta, precious metals.

Strategy

Our strategy remains focused on sustainable revenue growth and earning a good return on capital by building strong client relationships, while prudently managing risk. Revenue growth is expected to come from targeting new clients, building global capabilities in selected industries such as energy and mining, expanding product capabilities in areas such as derivatives and by focusing on institutional clients such as alternative asset managers.

Key performance drivers

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

- revenue growth;
- client profitability (return on economic equity, improvement in cross sell);
- loan loss ratio (specific provisions as a percentage of average loans and acceptances);
- Value at Risk; and
- daily trading profitability.

BUSINESS LINES

Scotia Capital financial performance

($ millions)	2006	2005	2004
Net interest income(1)	**$ 951**	$ 849	$ 937
Other income	**1,437**	1,320	1,227
Recovery of (provision for) credit losses (PCL)	**63**	71	(106)
Non-interest expenses	**(955)**	(929)	(960)
Income taxes(1)	**(443)**	(390)	(275)
Net income	**1,053**	921	823
Preferred dividends paid	**(6)**	(6)	(4)
Net income available to common shareholders	**$ 1,047**	$ 915	$ 819
Key ratios			
Return on equity (ROE)	**31.3%**	28.4%	20.3%
Productivity(1)	**40.0%**	42.8%	44.4%
Net interest margin (NIM)	**0.73%**	0.76%	0.86%
PCL as a percentage of loans and acceptances (2)	**(0.25)%**	(0.31)%	0.42%
Selected balance sheet data (average balances)			
Total assets	**129,825**	112,209	109,349
Earning assets	**116,598**	98,908	94,326
Loans and acceptances	**51,723**	49,382	46,110
Securities	**61,655**	47,827	40,265
Attributed equity	**3,349**	3,223	4,028

(1) Taxable equivalent basis.

(2) Corporate Banking only.

Financial performance

Scotia Capital reported record net income available to common shareholders of $1,047 million in 2006, a 14% increase over last year. The strong performance was driven by solid revenue growth of 10%, with growth in both Global Corporate and Investment Banking and Global Capital Markets. We continued to benefit from a benign credit environment, which again resulted in low provisions for credit losses and loan loss recoveries. Expenses remained well controlled, up a modest 3% from last year. Return on equity, at 31.3% was a record for the division, well ahead of last year's strong performance. Scotia Capital contributed 30% to the Bank's total net income.

Assets and liabilities

Total average assets rose to $130 billion, a 16% increase from last year. There was an increase of $8 billion in trading securities, to support both client-driven activity and trading opportunities. The increase also reflects the $6 billion impact of purchases of U.S. retail automotive asset-backed securities. Average corporate loans and acceptances (excluding reverse repurchase agreements) rose 9% to $25.2 billion. Canada achieved strong growth in loans and acceptances of $2 billion or 20% compared to last year. There was also 5% growth in the U.S., offset by lower loan volumes in Europe.

Revenues

Total revenues increased 10% to $2,388 million compared to the prior year. This reflected growth of 12% in Global Capital Markets and 8% in Global Corporate and Investment Banking.

Total Revenues



Interest income grew 12% to $951 million, with most of the growth coming from Global Capital Markets. Other income rose 9% to $1,437 million, reflecting growth in both areas.

Global Corporate and Investment Banking

Selected highlights

($ millions)	2006	2005	2004

Total revenue	**$ 1,154**	$ 1,067	$ 1,218
Net interest income	**527**	498	630
Other income	**627**	569	588
Average assets	**36,771**	30,579	25,543

Total revenues increased to $1,154 million, an 8% increase over last year. Revenue growth was achieved in all lending markets and in advisory fees.

Interest income was up 6% compared to 2005 due in part to higher interest recoveries from impaired loans in the U.S. and Europe. Also, increased lending volumes contributed to higher interest income, although this was partly offset by a continued tightening of credit spreads.

Other income increased 10% year over year, in part reflecting gains from the sale of securities in the U.S. and Europe, and volume-driven growth in acceptance fees in Canada. Increased revenues reflect a full year of revenue from Scotia Waterous, which was acquired in the second half of 2005, and higher M&A advisory revenues. These increases were partly offset by lower equity new issue revenues.

Global Capital Markets

Selected highlights

($ millions)	**2006**	2005	2004
Total revenue	**$ 1,234**	$ 1,102	$ 946
Net interest income	**424**	351	307
Other income	**810**	751	639
Average Assets	**93,054**	81,630	83,806

Total revenues rose to $1,234 million, up 12% compared to last year. Most trading businesses achieved higher revenues, with particularly strong growth in derivatives, precious metals and foreign exchange, partly offset by reduced results from equity trading.

Interest income from trading operations increased 20%, due primarily to higher tax-exempt dividend income.

Other income rose 8% due to strong growth in our foreign exchange, precious metals and fixed income businesses, offset by lower equity trading revenues.

Non-interest expenses

Non-interest expenses were $955 million in 2006, a 3% increase from last year, due partly to the inclusion of Scotia Waterous for a full year. Performance-related compensation also rose in line with improved results. As well, there were higher benefits and technology costs, offset by lower severance and support expenses.

Credit quality

Scotia Capital reported net loan loss recoveries of $63 million in 2006, compared to net recoveries of $71 million in 2005. Recoveries were realized in all lending markets. The level of recoveries was somewhat lower in the U.S. and Canada this year, while Europe reported a net recovery in 2006, compared to net provisions last year. Net impaired loans continued to decline, particularly in the U.S. and Europe, reflecting overall strong credit conditions and the effective execution of the Bank's risk and portfolio management strategies.

Outlook

The outlook for the trading businesses remains positive and we anticipate opportunities for further growth in the coming year. We have also enhanced client coverage in the investment banking area which, together with the benefits of the Scotia Waterous acquisition, should allow us to leverage our capabilities for growth. As well, our unique NAFTA footprint will provide opportunities to increase the cross-sell of the Bank's products and services. In corporate lending markets, we see opportunities for further growth, but expect that competitive pressures will continue to dampen credit spreads. We do not expect to achieve the same level of loan loss recoveries next year.

Other

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

Other financial performance

($ millions)	2006	2005	2004
Net interest income(1)	**$ (531)**	$ (523)	$ (588)
Other income	**489**	597	681
Provision for credit losses	**60**	43	103
Non-interest expenses	**(92)**	(106)	(79)
Income taxes(1)	**250**	212	137
Net income	**176**	223	254
Preferred dividends paid	**(7)**	(7)	(4)
Net income available to common shareholders	**$ 169**	$ 216	$ 250

(1) Taxable equivalent basis.

Financial performance

Net income available to common shareholders was $169 million in 2006, compared to $216 million in 2005.

Revenues

Net interest income and the provision for income taxes include the elimination of tax-exempt income gross-up. This amount is included in the operating segments, which are reported on a taxable equivalent basis. The elimination was $440 million in 2006, compared to $326 million last year reflecting higher dividend income.

Net interest income was negative $531 million in 2006, compared to negative $523 million in 2005. The impact of elimination of a higher tax-exempt gross up was mostly offset by higher funding profit and favorable changes in fair value of non-trading derivatives.

Other income declined $108 million to $489 million in 2006. The decrease was due primarily to lower securitization revenue and a decline in net gains on the sale of investment securities. A gain of $48 million was realized in 2006 on the sale of a portion of the Bank's investment in Shinsei Bank, compared to $118 million in 2005.

Credit quality

The provision for credit losses included a $60 million reduction in the general allowance in 2006, compared to a $45 million reduction in 2005.

Income taxes

The provision for income taxes includes the elimination of the gross-up of tax-exempt income, which was $114 million higher than last year.

Outlook

Considering the current and expected financial market conditions, gains on the sale of investment securities are expected to be somewhat lower than those realized in 2006.

The general allowance may be further reduced if positive economic and business conditions continue.

Risk management

Risk management overview

Risk, to varying degrees, is present in virtually all business activities of a financial services organization, so effective risk management is fundamental to the success of the Bank. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and risk tolerance, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

The Bank has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities. These risk exposures include:

1. Credit
2. Market
3. Liquidity
4. Operational
5. Reputational
6. Environmental

The Bank's Global Risk Management group is responsible for the design and application of the Bank's risk management framework, and is independent of the Bank's business units. The framework is integrated with the Bank's strategy and business planning processes. The effectiveness of this framework is enhanced by strong risk governance, which includes active participation of the Board of Directors, senior executive and business line management in the risk management process. The framework has four main components:



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

This risk management framework is also applied to significant subsidiaries of the Bank. These subsidiaries have risk management programs in place that conform in all material respects to the Bank's risk management framework, although the actual execution of their risk management programs may be different.

For new acquisitions, or situations where control of a subsidiary has been recently established, the Bank will assess existing risk management programs and, if necessary, develop an action plan to make improvements in a timely fashion.

Scotiabank's risk management framework

Policies & limits

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

Limits are set for two purposes. First, limits ensure risk-taking activities will achieve predictable results within the tolerances established by the Board of Directors and senior executive management. Second, limits establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

Guidelines

Guidelines are the directives provided to implement policies as set out above. Generally, these describe the facility types, aggregate facility exposures and conditions under which the Bank is prepared to do business. These may change from time to time, due to market or other circumstances. Risk taking outside of these guidelines is usually approved by either the Bank's Senior Credit Committees, Market Risk Management & Policy Committee or Risk Policy Committee.

Processes & standards

Processes are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation.

Measurement, monitoring and reporting

Measurement tools quantify risk across products and businesses and are used, among other things, to determine risk exposure. Global Risk Management is responsible for developing and maintaining an appropriate suite of such tools to support the operations of the various business lines.

Reporting tools are also required to aggregate measures of risk across products and businesses for the purposes of ensuring compliance with policies, limits and guidelines and providing a mechanism for communicating the amounts, types and sensitivities of the various risks in the

portfolio. This information is used by the Board and senior executive management to understand the Bank's risk profile and the performance of the portfolio against defined goals.

Internal Audit independently monitors the effectiveness of risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes related to the identification, measurement, management, monitoring and reporting of risks.

RISK MANAGEMENT

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



Risk Governance

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

Board of Directors and/or Board Committees:

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

Senior Management Committees:

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

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

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

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

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

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

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

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 strategies that define target markets and risk tolerances are developed at an all-Bank level, and then further refined at the business line level. These strategies are reviewed by the Risk Policy Committee, which in turn recommends the key overall strategies to the Executive and Risk Committee of the Board for approval on an annual basis. Once approved, the credit risk strategies form part of the policies that govern credit risk.

Corporate and Commercial

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

Consistent with the Board-approved limits, corporate and commercial credit exposures are segmented into major industry groups. The risks in these industry groups are managed through limits, and lending criteria and guidelines relevant to each particular industry. Borrower limits are set within the context of established guidelines for individual borrowers, particular industries, countries and certain types of lending to ensure the Bank does not have excessive concentration in any single borrower, or related group of borrowers, industry sector or geographic region. Through the portfolio management process, loans may be syndicated to reduce overall exposure to a single name. For certain segments of the portfolio, credit derivative contracts are also used to mitigate the risk of loss due to borrower default. Risk is also mitigated through the selective sale of loans. If, in the judgment of management, an account requires the expertise of specialists in workouts and restructurings, it will be transferred to a special account group for monitoring and resolution. Global Risk Management also uses a specialized credit group for all adjudication decisions referred from these special account groups.

The decision-making process for corporate and commercial credit exposures is intended to ensure that risks are adequately assessed, properly approved, continually monitored and actively managed. All significant credit requests are processed through the credit adjudication units of Global Risk Management for analysis and recommendation. Within the risk management framework, these credit units have defined authority levels appropriate to the size and risk of each transaction. Where the decision is beyond these authority levels, the credit unit will make a recommendation and refer the request to a senior credit committee for adjudication. Senior credit committees also have defined authority levels and, accordingly, forward certain transactions to the Risk Policy Committee. In certain cases, these must be referred to the Board of Directors.

The decision-making process begins with an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include: the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; geopolitical risk; and the borrower's management.

Based on this assessment, a risk rating is assigned to the individual borrower or counterparty, using the Bank's risk rating systems. A separate risk rating is also assigned at the facility level, taking into consideration additional factors, such as security, seniority of claim, structure and term, that affect the amount of potential loss in the event of a default of the facility.

In making credit adjudication decisions, various internal and external modeling techniques are used to supplement the risk analysis of individual borrowers and credit portfolios. In addition, a risk-adjusted return on equity profitability model is used to ensure that the client and transaction structure offers an appropriate return for a given level of risk. For the corporate and domestic commercial portfolios, the Loan Portfolio Management Group independently reviews the profitability model results, together with external benchmarks, and provides an opinion on the relative return and pricing of each transaction above a minimum threshold.

Individual credit exposures are regularly monitored by both the business line units and Global Risk Management for any signs of deterioration. In addition, a review and risk analysis of each borrower is conducted annually, or more frequently for higher-risk borrowers.

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

Consumer

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

RISK MANAGEMENT

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

All significant credit scoring and policy changes proposed by the business lines are evaluated by Global Risk Management, which is independent of the business lines. If Global Risk Management agrees with the proposed change, it is forwarded to the appropriate Senior Credit Committee for approval. These credit scoring models are subject to ongoing validation and independent review by Global Risk Management. Consumer credit portfolios are reviewed monthly to identify emerging trends in loan quality and to assess whether corrective action is required.

Risk rating systems

The evaluation of the credit risk of a borrower, or for a specific credit facility for a borrower, leads to classification under the Bank's various internal risk rating systems. The Bank applies different methodologies to arrive at risk ratings for the various unique portfolios. These systems are designed to meet the objectives of transparency and replicability in order to provide Bank-wide consistency in terms of credit adjudication, minimum lending standards by risk ratings and reporting of credit risk. The Bank periodically reassesses its risk rating methodologies and makes enhancements when necessary. A description of the risk rating systems used in various portfolios is given below.

Corporate and commercial portfolios

The Bank uses a dual risk rating system that separately assesses the risk of borrowers and their associated credit facilities. Borrower risk is evaluated using methodologies that are specific to particular industry sectors and/or business lines. The risk associated with facilities of a given borrower is assessed by considering the facilities' structural and collateral-related elements.

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

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

Consumer portfolios

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

Market risk

Market risk is the risk of loss in our trading, funding and investment positions that results from exposure to interest rates, credit spreads, foreign currency rates, and equity and commodity prices. A description of each market risk category is provided below:

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

Credit spread risk is the risk of loss due to changes in the market price of credit, or the creditworthiness of a particular issuer.

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

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

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

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

Risk measurement summary

Value at Risk

Value at Risk (VAR) is a statistical measure that estimates the potential loss in value of the Bank's trading positions due to adverse market movements, over a defined time horizon with a specified confidence level. VAR is calculated daily using a 99% confidence level, a one-day holding period and historical simulations based on 300 days of market data. This means that about once in every 100 days, the trading book positions may lose more than the VAR estimate. Changes in VAR between reporting periods are generally due to changes in levels of exposure, volatilities and/or correlations among asset classes. VAR is also used to evaluate risks arising in certain funding and investment portfolios.

Stress testing

VAR measures potential losses in normally active markets. An inherent limitation of VAR is that it gives no information about how much losses could exceed their expected levels. Accordingly, stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can easily absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 50 stress tests on a daily basis, and over 200 stress tests on a monthly basis. The Bank also evaluates risk in its investment portfolios on a monthly basis, using stress tests based on specific market events.

Sensitivity analysis and simulation modeling

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

Gap analysis

Gap analysis is used to assess the interest rate sensitivity of the Bank's retail, wholesale banking and international operations. Under gap analysis, interest rate sensitive assets, liabilities and off-balance sheet instruments are assigned to defined time periods on the basis of expected re-pricing dates. 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.

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

Global Risk Management provides independent oversight of all significant market risks, supporting the MRMPC and LCO with analysis, risk measurement, monitoring, reporting and proposals for standards. The Bank uses a variety of metrics and models to measure and control market risk exposures. The measurements used are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Value at Risk, stress testing, sensitivity analysis and simulation modeling, and gap analysis. The use and attributes of each of these techniques are noted in the Risk Measurement Summary. Models are independently validated prior to implementation and are subject to formal periodic review.

To ensure compliance with policies and limits, market risk exposures are independently monitored on a continuing basis, either by Global Risk Management or by the back offices. They provide senior management, business units, the LCO, and the MRMPC with a series of daily, weekly and monthly reports of market risk exposures by business line and risk type. The Board also receives quarterly enterprise risk management reports on key exposures and performance.

Funding and investment activities

Market risk arising from the Bank's funding and investment activities are identified, managed and controlled through the Bank's asset-liability management processes. The Liability Committee meets weekly to review risks and opportunities, and evaluate performance.

Interest rate risk

The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's funding and investment activities is managed in accordance with Board-approved policies and global limits, which are designed to control the risk to income and economic value. The income limit measures the effect of a specified shift in interest rates on the Bank's annual net income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures in individual currencies are also controlled by gap limits. Gap analysis, simulation modeling, sensitivity analysis and VAR are used to assess exposures and for planning purposes.

The table below shows the breakdown of the Canadian dollar and foreign currency interest rate gaps as at October 31, 2006, and the chart at the right illustrates trends in one-year interest rate gaps. As at October 2005, the Bank had a one-year asset gap in Canadian dollars. During fiscal 2006, this asset gap was reduced to a moderate liability gap in anticipation of lower interest rates. The Canadian dollar margin declined in 2006 as a result of the inversion of the yield curve, a shift in customer preferences toward longer term fixed rate mortgages, and the funding of retail asset growth, in part, through wholesale deposits.

Interest rate gap
$ billions, one-year liability gap

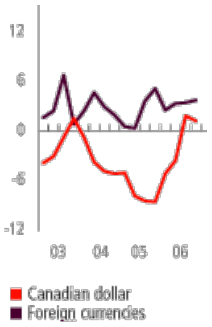


Table 11 Interest rate gap

Interest rate sensitivity position[1] As at October 31, 2006 ($ billions)	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	Total
Canadian dollars					
Assets	$ 144.0	$ 18.3	$60.9	$ 7.1	**$230.3**
Liabilities	136.7	26.9	49.7	17.0	**230.3**
Gap	7.3	(8.6)	11.2	(9.9)	
Cumulative gap	7.3	(1.3)	9.9	–	
Foreign currencies					
Assets	107.6	11.5	21.0	8.6	**148.7**
Liabilities	115.6	7.3	4.6	21.2	**148.7**
Gap	(8.0)	4.2	16.4	(12.6)	
Cumulative gap	(8.0)	(3.8)	12.6	–	
Total					
Gap	$ (0.7)	$ (4.4)	$27.6	$ (22.5)	
Cumulative gap	(0.7)	(5.1)	22.5	–	
As at October 31, 2005:					
Gap	$ 4.9	$ (1.6)	$17.0	$ (20.3)	
Cumulative gap	4.9	3.3	20.3	–	

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

The Bank maintained a one-year liability gap in foreign currencies throughout fiscal 2006. These exposures trended higher throughout the year. Overall, foreign currency margins decreased slightly in 2006.

Based on the Bank's interest rate positions at year end 2006, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income after tax by approximately $58 million over the next 12 months. During fiscal 2006, this measure has ranged between $44 million and $100 million. This same increase would reduce the after-tax present value of the Bank's net assets by approximately $627 million. During fiscal 2006, this measure has ranged between $517 million and $714 million.

Foreign currency risk

Foreign currency risk arising from the Bank's funding and investment activities includes risks from the Bank's net investments in self-sustaining foreign operations and from its net corporate foreign currency positions. The Bank's corporate foreign currency positions generally consist of foreign currency profits earned in its domestic and foreign branches.

The Bank's exposure to its net investments in self-sustaining foreign operations is controlled by a Board-approved limit and is reviewed quarterly by the Liability Committee. The Bank may fully or partially hedge this exposure by funding the investments in the same currency, or by using other financial instruments, including derivatives. In accordance with GAAP, foreign currency translation gains and losses from net investments in self-sustaining foreign operations net of related hedging activities are recorded in 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 subject to foreign currency translation risk on the earnings of its foreign operations. To manage this risk, foreign currency revenues and expenses, which are primarily denominated in U.S. dollars and Mexican pesos, are projected over a number of future fiscal quarters. The 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. Some of these economic hedges may not qualify for hedge accounting under current accounting rules, so there is a potential for a mismatch in the timing of the recognition of economic hedge gains/losses and the underlying foreign earnings translation gains/losses. In accordance with GAAP, foreign currency translation gains and losses from corporate positions are recorded in earnings.

The translation effect of the strengthening of the Canadian dollar on the Bank's earnings is summarized on page 28. 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 $30 million before tax. A similar change in the Canadian dollar would decrease (increase) the cumulative foreign currency translation account in shareholders' equity by approximately $101 million.

Investment portfolio risks

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

As at October 31, 2006, the market value of the Bank's investment portfolios was $1,001 million over book value, compared to a surplus of $1,035 million over book value at the end of fiscal 2005. For further details, see Table 32 on page 77.

Trading activities

Scotiabank's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily customer focused, but also include a proprietary component.

Market risk arising from the Bank's trading activities is managed in accordance with Board-approved policies and aggregate VAR and stress testing limits. The quality of the Bank's VAR is validated by regular back testing analysis, in which the VAR is compared to theoretical and actual profit and loss results. The Board reviews VAR and stress testing results quarterly. Within the Board-approved framework, the Market Risk Management and Policy Committee establishes detailed trading policies, and product and risk limits, including VAR limits by business line.

Global Risk Management independently develops, executes and analyzes stress testing, sensitivity analysis, VAR calculations and valuation processes. It also develops models used for limit monitoring and financial reporting purposes; and reviews and participates in new product development. Models and policies are subject to formal periodic review.

Trading portfolios are marked to market in accordance with the Bank's valuation policies. Positions are marked to market daily and valuations are independently reviewed by back office or Global Risk Management units on a regular basis. These units also provide profit and loss reporting, as well as VAR and limit compliance reporting to business unit management and executive management for evaluation and action where appropriate.

In fiscal 2006, the one-day VAR for trading activities averaged $8.9 million, compared to $7.6 million in 2005. The increase was due primarily to increased equity exposure. The following table shows VAR by Risk Factor.

One-day VAR by risk factor ($ millions)

	2006 Year end	Avg	High	Low	2005 Year end	Avg	High	Low
Interest rate	9.5	6.2	10.3	2.5	4.6	6.0	13.0	3.1
Equities	2.8	5.8	9.0	2.6	4.3	3.9	6.0	1.7
Foreign exchange	0.6	1.4	3.8	0.5	1.0	2.0	6.9	0.2
Commodities	0.5	0.9	2.6	0.3	1.7	1.0	2.5	0.1
Diversification effect	(4.8)	(5.4)	N/A	N/A	(5.0)	(5.3)	N/A	N/A
All-Bank VAR	8.6	8.9	13.3	5.6	6.6	7.6	15.9	4.9

The histogram to the right shows the distribution of daily trading revenue for fiscal 2006. Trading revenue averaged $4.0 million per day, compared to $3.6 million for 2005. Revenue was positive on more than 90% of trading days during the year, compared to 95% in 2005. During the year, the largest single day loss was $7.6 million.

Derivative instruments and structured transactions

Derivatives

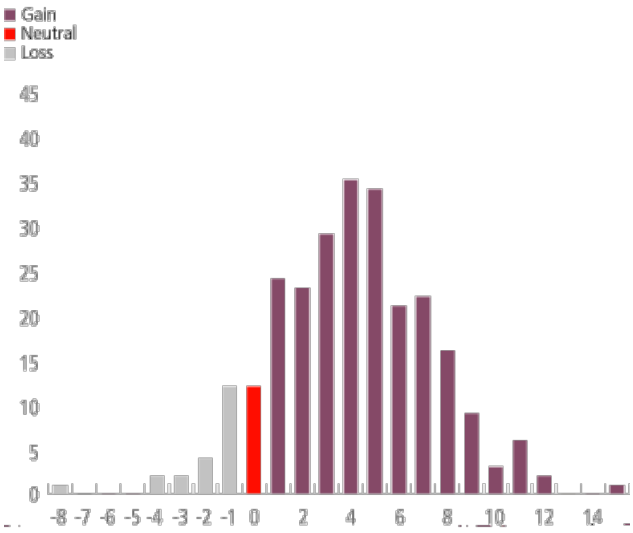
The Bank uses derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and lower its cost of capital. The Bank uses several types of derivative products, including interest rate swaps, futures and options, to hedge interest rate risk exposure. Forward contracts, swaps and options are used to manage foreign currency risk exposures. Credit exposures in its lending and investment books are managed using credit default swaps. As a dealer, the Bank markets a range of derivatives to its customers, including interest rate, foreign exchange, equity, commodity and credit derivatives.

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

To control credit risk associated with derivatives, the Bank uses the same credit risk management activities and procedures that are used in the lending business in assessing and adjudicating potential credit exposure. The Bank applies limits to each counterparty, measures exposure as the current fair value plus potential future exposure, and uses credit mitigation techniques, such as netting and collateralization. Note 23 to the consolidated financial statements on page 128 summarizes the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type. More than half of the notional value of the Bank's derivative instruments mature within one year, while 88% mature within five years. Investment grade counterparties account for 85% of the credit risk amount arising from the Bank's derivative transactions, unchanged from last year.

The Bank's use of credit derivatives increased year over year, as notional principal amounts rose by $13.7 billion to $34.8 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 uses credit derivatives in its investment and loan portfolios. Credit protection is sold as an alternative to bond or loan assets, while credit protection is bought to manage credit exposures.

Low variability of trading revenues
period ending October 31, 2006


Gain
Neutral
Loss
45
40
35
30
25
20
15
10
5
0
-8 -7 -6 -5 -4 -3 -2 -1 0 2 4 6 8 10 12 14

RISK MANAGEMENT

As at October 31, 2006, the notional value of credit default swaps sold in the investment and credit portfolios was $0.4 billion, and the notional value bought was $1.4 billion.

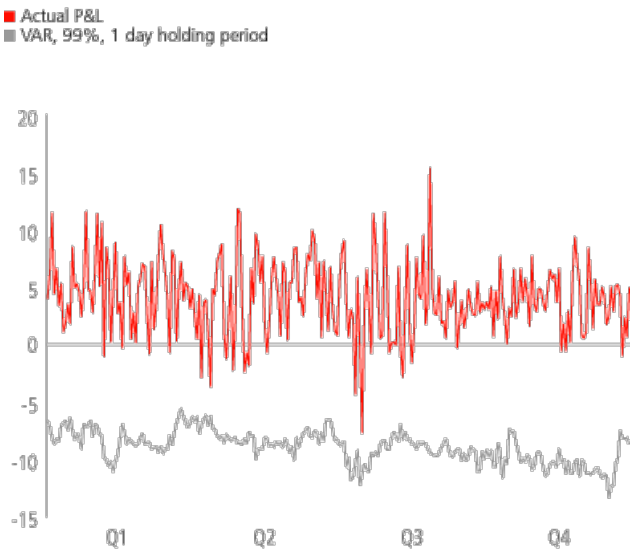
Where derivative products used for asset-liability management (non-trading) purposes are economic hedges, they must meet specified designation, documentation and effectiveness testing requirements to qualify for hedge accounting treatment. Further details on the accounting for derivatives can be found in Note 1 of the 2006 consolidated financial statements on page 95.

Structured transactions

Structured transactions are specialized transactions that may involve combinations of cash, other financial assets and derivatives designed to meet the specific risk management or financial requirements of customers. These transactions are carefully evaluated by the Bank to identify and address the credit, market, legal, tax, reputational and other risks, and are subject to a cross-functional review and sign off by trading management, Global Risk Management, Taxation, Finance and Legal Departments. All large structured transactions are also subject to review by senior risk management committees and evaluated in accordance with the procedures described below in Reputational Risk.

The market risk in these transactions is usually minimal, and returns are earned by providing structuring expertise and by taking credit risk. Once executed, structured transactions are subject to the same ongoing credit reviews and market risk analysis as other types of derivatives transactions. This review and analysis includes careful monitoring of the quality of the reference assets, and ongoing valuation of the derivatives and reference assets.

Daily trading revenue vs. Value At Risk
$ millions, November 1, 2005, to October 31, 2006



Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable our core businesses to continue to generate revenue, even under adverse circumstances. This risk is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee provides senior management oversight of liquidity risk and meets weekly to review the Bank's liquidity profile.

The Bank maintains flexibility using a comprehensive set of liquidity and funding policies in order to address potential Bank-specific and broader industry or market liquidity events.

The key elements of our liquidity risk framework are:

- Measurement and modeling – the Bank's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow over specified short-term horizons and a minimum level of core liquidity.
- Funding diversification – the Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, term and geographic market.
- Core liquidity – the Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to company-specific events. The Bank also maintains liquid assets to support its intra-day settlement obligations in payment, depository and clearing systems.
- Stress testing – the Bank performs liquidity stress testing on a quarterly basis to evaluate the effect of both industry and Bank-specific disruptions on the Bank's liquidity position. These tests consider the effect of changes in funding assumptions, depositor behaviour, the market value of core liquidity, and market variables, including interest rates, foreign currency rates, and equity and commodity prices. The stress test results are reviewed at senior levels of the organization and are considered in making liquidity management decisions.

- Contingency planning – the Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to a liquidity crisis. The plan outlines the crisis management team's mandate, the internal and external parties to be contacted to ensure effective distribution of information, and the actions that need to be considered at various stages of an event.

Liquidity profile

The Bank maintains large holdings of liquid assets to support its operations, as shown in Table 12 on page 61. These assets generally can be sold or pledged to meet the Bank's obligations. As at

Table 12 Liquidity

As at October 31 ($ millions)	2006	2005	2004	2003	2002
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	**$ 469**	$ 481	$ 356	$ 647	$ 868
Deposits with other banks	**2,445**	1,770	1,255	1,382	686
Securities	**53,762**	39,361	32,211	34,234	30,310
	56,676	41,612	33,822	36,263	31,864
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	**3,839**	3,142	2,624	2,388	2,370
Deposits with other banks	**16,623**	15,112	12,920	16,163	16,348
Securities	**20,824**	22,180	19,344	20,254	16,194
Call and short loans	**5**	–	–	–	–
	41,291	40,434	34,888	38,805	34,912
Total liquid assets					
Cash and deposits with Bank of Canada	**4,308**	3,623	2,980	3,035	3,238
Deposits with other banks	**19,068**	16,882	14,175	17,545	17,034
Securities	**74,586**	61,541	51,555	54,488	46,504
Call and short loans	**5**	–	–	–	–
	$97,967	$82,046	$68,710	$75,068	$66,776
Liquid assets as a % of total assets	**25.8%**	26.1%	24.6%	26.3%	22.5%

October 31, 2006, liquid assets were $98 billion (2005 – $82 billion), equal to 26% of total assets, unchanged from the previous year. These assets consist of securities, 76% (2005 – 75%), and cash and deposits with banks, 24% (2005 – 25%).

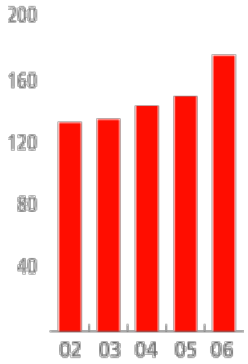
In the course of the Bank's day-to-day activities, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Securities may also be sold under repurchase agreements. As at October 31, 2006, total assets pledged or sold under repurchase agreements were $66 billion (2005 –$48 billion). The year-over-year increase was due to an increase in assets pledged with respect to securities borrowed and securities lent, and an increase in securities sold under repurchase agreements.

Funding

The Bank ensures that its funding sources are well diversified. Funding source concentrations are regularly monitored and analyzed by type and by industry. The principal sources of funding are capital, deposits drawn from retail and commercial clients in the Bank's extensive domestic and international branch network, and wholesale funding. We use residential mortgage securitization programs as alternative sources of funding and for liquidity and asset/liability management purposes. To ensure that the Bank does not place undue reliance on a single entity as a funding source, the Bank maintains a limit on the amount of deposits it will accept from any one entity. Core funds, represented by capital and core deposits of the Bank's retail and commercial clients, were $178 billion as at October 31, 2006, versus $152 billion last year.

Core funds

$ billions, October 31



This increase was attributable primarily to higher balances of demand and notice deposits and personal term deposits. As at October 31, 2006, the Bank's core funds represented 47% of total funding (2005 – 48%).

Contractual obligations

The table below provides aggregated information about the Bank's contractual obligations as at October 31, 2006, which affect the Bank's liquidity and capital resource needs. The Bank's contractual obligations include contracts and purchase obligations, including agreements to purchase goods and services, that are enforceable and legally binding on the Bank. The table excludes deposit liabilities (except term funding), other short-term financing arrangements, lending commitments and pension and other retirement benefit obligations, which are discussed in Notes 10, 22, 21 and 17, respectively, of the 2006 consolidated financial statements.

The Bank prudently diversifies its wholesale funding activities by using a number of different funding programs and extending its maturity

profile, when appropriate. In 2006, the Bank issued approximately $10.2 billion of term funding in the domestic, Euro, Yankee and other markets. Term funding by other entities in the Scotiabank Group increased by approximately $4 billion in 2006. The outstanding balance of the Bank's subordinated debentures declined in 2006, as an existing issue was redeemed and not replaced.

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

The Bank leases a large number of its branches, offices and other locations. The vast majority of these leases are for a term of five years, with an option to renew. The total cost of these leases, net of rental income from subleases, was $181 million in 2006.

The Bank has entered into two major outsourcing contracts. The largest is a seven-year contract with IBM Canada, signed in 2001, to manage the Bank's domestic computer operations, including data centres, branches, automated banking machines and desktop computing environment. This contract was expanded in 2005 to include the computer operations for the Caribbean and Central America, and Mexico. The contract for Mexico was recently renewed and has been extended until 2013. The second is a three-year contract, with two optional five-year renewals, signed in 2003 with Symcor Inc. to manage the Bank's cheque and bill payment processing, including associated statement and report printing activities across Canada. The first of the five-year renewal options has been exercised. These outsourcing contracts are cancellable with notice.

Contractual obligations

($ millions)	Under 1 year	1-3 years	4-5 years	Over 5 years	**Total**
Term funding					
Wholesale deposit notes	5,798	7,806	5,503	2,209	**21,316**
Euro MTN	3,029	4,552	2,388	—	**9,969**
Subordinated debentures	—	281	—	1,990	**2,271**
Other long-term liabilities	90	380	541	912	**1,923**
Subtotal	8,917	13,019	8,432	5,111	**35,479**
Operating leases	166	260	163	196	**785**
Outsourcing obligations	203	261	213	407	**1,084**
Total	9,286	13,540	8,808	5,714	**37,348**

RISK MANAGEMENT

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 $229 million in 2006, up 34% from $171 million in 2005. The increase was primarily in real estate, which rose $43 million or 39%, due to the planned growth of our retail branch network in Canada and internationally, especially in Mexico. Technology-related spending increased $15 million or 25%, due primarily to the growth and ongoing upgrades of our ABM network, as well as equipment for new international branches.

Operational risk

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

The Bank has developed policies, standards and assessment methodologies to ensure that operational risk is appropriately identified, managed and controlled. The governing principles and fundamental components of the Bank's operational risk management approach include:

- Accountability in the individual business lines for management and control of the significant operational risks to which they are exposed.
- A robust internal control environment.
- An effective organization structure through which operational risk is managed, including:
  - A Board of Directors responsible for sound corporate governance.
  - Executive management who have clearly defined areas of responsibility.
  - A central operational risk management unit responsible for developing methods to identify, assess and monitor operational risks.
  - Independent specialist units responsible for developing methods to control/mitigate specific components of operational risk, including codifying policies and processes required to control those specific risks.
  - Separation of duties between key functions.
  - An independent internal audit department responsible for verifying that significant risks are identified and assessed, and for determining whether appropriate controls are in place to ensure that overall risk is at an acceptable level.
- A program designed to promote compliance with relevant laws and regulatory requirements. Compliance risk is managed through an established network and a process that includes: monitoring regulatory changes; conducting compliance risk assessments; implementing policies and procedures; training; and monitoring and resolving issues.
- An operational risk management framework, consisting of processes and controls to identify, assess, monitor and manage operational risk.

The following are key components of the Bank's operational risk management framework:

- The Bank's risk control self-assessment program, which is managed by Global Risk Management's central operational risk management unit, entails formal reviews of significant operations to identify and assess operational risks. This program provides a basis for management to ensure that appropriate and effective controls and processes are in place on an ongoing basis to mitigate operational risk and, if not, that appropriate corrective action is being taken. Where appropriate, business line management develops action plans to mitigate identified risks. Results of these reviews are summarized and reported to executive management.
- The Bank's centralized operational loss event database, which is managed and maintained by the central operational risk management unit, and captures key information on operational losses. The scope of operational loss event data captured within the centralized database continues to be enhanced. This data is analyzed, benchmarked against external data, and reported to executive management.
- The Bank's business continuity management policies, which require that all business units develop business continuity capabilities for their respective functions. The Bank's Business Continuity Management Department is responsible for governance and oversight of the Bank's business continuity, and tracks, monitors and ensures compliance with these policies.
- Risk mitigation programs, which use insurance policies to transfer the risk of high severity losses, where feasible and appropriate.

Reputational risk

Reputational risk is the risk that negative publicity regarding Scotiabank's conduct or business practices, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Negative publicity and attendant reputational risk frequently arise as a by-product of some other kind of risk management control failure.

Reputational risk is managed and controlled throughout the Bank by codes of conduct, governance practices and risk management programs, policies, procedures and training. Many relevant checks and balances are outlined in greater detail under other risk management sections, particularly Operational Risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have

a responsibility to conduct their activities in accordance with the Scotiabank Guidelines for Business Conduct, and in a manner that minimizes reputational risk. The activities of the Legal Department, Corporate Secretary, Public, Corporate & Government Affairs and Compliance departments, and the Bank's Reputational Risk Committee, are particularly oriented to the management of reputational risk.

In providing credit or advice to customers, the Bank considers whether the transaction or relationship might give rise to reputational risk. The Bank has an established, Board-approved Reputational Risk Policy, as well as a policy and procedures for managing reputational and legal risk relative to structured finance transactions. Global Risk Management plays a significant role in the identification and management of reputational risk related to credit underwriting. Identified reputational risk issues are referred to the Reputational Risk Committee for adjudication. In addition, the Reputational Risk Committee is available to support other risk management committees and business units with their assessment of reputational risk associated with business initiatives, products and transactions.

The Committee considers a broad array of factors when assessing transactions, so that they meet and will be seen to meet high ethical standards. These factors include: the extent, and outcome, of legal and regulatory due diligence pertinent to the transaction; the economic intent of the transaction; the effect of the transaction on the transparency of a customer's financial reporting; the need for customer or public disclosure; conflicts of interest; fairness issues; and public perception.

The Committee may impose conditions on customer transactions, including customer disclosure requirements to promote transparency in financial reporting, so that transactions meet Bank standards. In the event the Committee recommends not proceeding with a transaction and the sponsor of the transaction wishes to proceed, the transaction is referred to the Risk Policy Committee.

Environmental risk

Environmental risk refers to the possibility that environmental concerns involving the Scotiabank Group or its customers could affect the Bank's financial performance.

To safeguard the Bank and the interests of its stakeholders, Scotiabank 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 Scotiabank Environmental Lending Policy 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. Global Risk Management has primary responsibility for establishing the processes and standards associated with this risk. Decisions are taken in the context of the risk management framework discussed on page 53.

In 2006, the Bank's environmental risk practices in the area of project finance were further enhanced with the adoption of the revised Equator Principles. These are environmental and social guidelines for project finance transactions with a capital cost of US$10 million or higher, based on the policies of the International Finance Corporation, the private sector arm of the World Bank. The Equator Principles provide safeguards for sensitive projects to ensure protection of natural habitats and the rights of indigenous peoples, as well as safeguards against child and forced labour.

Environmental concerns also play a prominent role in shaping our real estate practices. The Real Estate Department adheres to an Environmental Compliance Policy to ensure responsible management of the Bank's real estate holdings. In addition, considerable recycling and resource management programs are in place in the Bank's corporate offices and branch networks. In order to further reduce the Bank's environmental footprint, we are in the process of developing and implementing more definitive management processes on energy and paper use.

To ensure it continues to operate in an environmentally responsible manner, the Bank monitors policy and legislative requirements through ongoing dialogue with government, industry and stakeholders in countries where it operates. Scotiabank has been meeting with environmental organizations, industry associations and socially responsible investment organizations with respect to the role that banks play to help address the issues of climate change, protection of biodiversity, promotion of sustainable forestry practices, and other environmental issues important to our customers and communities where we operate. We have an ongoing process of reviewing our policies in these areas. Scotiabank is also a signatory, participant and sponsor of the Carbon Disclosure Project in Canada, which provides corporate disclosure to the investment community on greenhouse gas (GHG) emissions and climate change management.

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

Controls and procedures

Management's responsibility for financial information contained in this annual report is described on page 88. In addition, the Bank's Audit and Conduct Review Committee of the Board of Directors has reviewed this annual report, and the Board of Directors has reviewed and approved this annual report prior to its release. Scotiabank is committed to providing timely, accurate and balanced disclosure of all material information and to providing fair and equal access to such information. The Bank's disclosure policies and practices are published on its website.

Disclosure controls are procedures designed to ensure that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified by these regulators. This information is accumulated and communicated to the Bank's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, 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 (GAAP), including a reconciliation to United States GAAP. These controls include policies and procedures that:

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

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

As of October 31, 2006, the Bank's management evaluated the effectiveness of its disclosure controls and procedures, as defined under the rules adopted by the U.S. Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities. This evaluation was performed under the supervision of, and with the participation of, the CEO and CFO. In addition, the Bank's management has assessed whether, during the 2006 fiscal year, there have been any changes in the Bank's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

The Bank continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, the Bank's management acknowledges that its disclosure controls and procedures will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

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

- the Bank's disclosure controls and procedures are effective; and
- during the 2006 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.

Critical accounting estimates

The Bank's accounting policies are integral to understanding and interpreting the financial results reported in this annual report. Note 1 on pages 95 to 99 summarizes the significant accounting policies used in preparing the Bank's consolidated financial statements. Certain of these policies require management to make estimates and subjective judgments that are difficult, complex, and often related to matters that are inherently uncertain. The policies discussed below are considered to be particularly important to the presentation of the Bank's financial position and results of operations, because changes in the judgments and estimates could have a material impact on the Bank's financial statements. These estimates are adjusted in the normal course to reflect changing underlying circumstances.

Allowance for credit losses

The allowance for credit losses, comprising both specific and general allowances, represents management's best estimate of the probable credit losses in the portfolio of deposits with banks, securities purchased under resale agreements, loans, acceptances and other indirect credit commitments, such as letters of credit and guarantees.

Management regularly reviews credit quality to assess the adequacy of the allowance for credit losses. This process requires the use of estimates and subjective judgments at many levels. These include identifying credits that are impaired, and considering factors specific to individual credits, as well as the impact of portfolio characteristics and risks. The provision for credit losses could be directly affected by changes to these estimates, or by the use of different but also reasonable judgments and estimates.

Specific allowances are an estimate of probable incurred losses related to existing impaired loans. To determine specific allowances applicable to individual credit exposures, management must first form a judgment as to whether a loan is impaired, and then as to its estimated net realizable value, based on evidence

available about the individual borrower. A loan is considered to be impaired when, based on management's judgment, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. In estimating net realizable value, management makes estimates and judgments about the amount and timing of future cash flows, the fair value of any underlying security pledged as collateral, costs of realization, observable market prices, and expectations about the future prospects of the borrower and any guarantors.

For homogenous portfolios, including credit card loans, residential mortgages and most personal loans, specific allowances are determined on a group basis. Management estimates the probable losses inherent in the portfolio by using a formula method that takes into account recent loss experience.

Overall, credit quality remained strong in 2006. While new specific provisions were lower in 2006, there were greater recoveries in 2005, resulting in a small net increase in specific provisions for credit losses in 2006 compared to 2005.

The general allowance is an estimate of probable incurred losses that are inherent in the portfolio of loans and loan commitments, but have not yet been specifically identified on an individual basis. The Bank determines the general allowance based on numerous factors, including historical default probabilities, loss severity in the event of default and exposure at default. Management makes best estimates of these parameters and, using an internally developed model, arrives at an initial quantitative estimate of the general allowance. Material changes in any of the above parameters or assumptions would affect the range of expected credit losses and, consequently, could affect the general allowance level. If either the probability of default or the loss severity parameters for the non-retail portfolio were independently increased or decreased by 10%, the model would indicate an increase or decrease to the quantitative estimate of approximately $65 million (2005 – $65 million). Based on the initial calculated amount for the general allowance, senior management determines whether adjustments are necessary to take account of portfolio conditions not reflected in the historically based credit parameters used in the model. Considerations include observable data, such as economic trends and business conditions, portfolio concentrations, risk migrations and recent trends in volumes and severity of delinquencies and a component for the imprecision inherent in the model and model parameters. Management reviews the general allowance each quarter to assess whether the allowance is at the appropriate level in relation to the size of the portfolio, inherent credit risks and trends in portfolio quality.

The general allowance for credit losses as at October 31, 2006 was $1,307 million, a reduction from $1,330 million a year ago. The impact on the Bank's portfolio from certain macroeconomic factors – such as high oil prices and interest rates, and the sustained strength of the Canadian dollar – improved towards the end of the year. As a result of such favourable trends, as well as a continuation of favourable credit conditions, the general allowance for credit losses was reduced by $60 million in the Consolidated Statement of Income, while there was a $37 million increase resulting from the consolidation of an acquisition in Peru. This net decline follows a reduction of $45 million in 2005 and $100 million in 2004.

Fair value of financial instruments

Financial instruments in the Bank's trading portfolios are composed primarily of securities and derivatives. These trading instruments are carried at fair value on the Consolidated Balance Sheet, with changes in the fair values of trading instruments included in the Consolidated Statement of Income (see Note 1 for further details on significant accounting policies).

Trading securities are normally valued using quoted market prices. Most trading derivatives, which include customer-driven transactions and those undertaken for proprietary positions, are valued using quoted market prices or valuation models which incorporate independent and observable market parameters. These market inputs include interest rate yield curves, foreign exchange rates and option volatilities.

Where quoted market prices are not available, fair values are usually determined using present value or other techniques based on observable interest rates, foreign exchange rates, credit spreads and equity prices. Management's judgment on valuation inputs is necessary when observable market data is not readily available. Management also applies judgment in the selection of valuation models, as well as consideration, on a portfolio basis, of customer credit risk and ongoing direct costs in the determination of fair value. Uncertainty in these estimates can affect the fair value and financial results recorded; however, the impact of any change in these estimates is not expected to be significant.

The breakdown of valuation sources for trading securities and derivatives is shown in the table below. Percentages are consistent with prior years.

Valuation methodology for trading instruments

	Trading assets		Trading liabilities	
	Securities	Derivatives	Securities[1]	Derivatives
Fair value based on:				
Quoted market prices	99.1%	0.0%	100.0%	0.0%
Internal models with significant observable market parameters	0.9%	99.0%	0.0%	99.3%
Internal models with significant unobservable market parameters	0.0%	1.0%	0.0%	0.7%
Total	100.0%	100.0%	100.0%	100.0%

(1) This represents obligations related to securities sold short.

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. Management reviews the investment securities each quarter to determine whether the fair value is below the current carrying value. If this is the case, management determines whether the decline is other-than-temporary. To assess whether an other-than-temporary impairment has occurred, management must make certain judgments and estimates, and considers factors such as the type of investment, the length of time and extent to which the fair value of a security has been below its carrying value, prospects for recovery in fair value, and the company's financial condition and future prospects. Once management has determined that the security has suffered an other-than-temporary decline in value, the carrying value of the security is

written down to its estimated net realizable value. To estimate net realizable value, management considers all of the data gathered during the impairment evaluation process, as well as the market liquidity and the Bank's plans for the security. Other-than-temporary impairments in value are recorded in net gains on investment securities in other income in the Consolidated Statement of Income.

As at October 31, 2006, the gross unrealized gains on individual investment securities were $1,286 million, and the gross unrealized losses were $195 million, resulting in a net unrealized gain of $1,091 million before related derivative and other hedge amounts ($1,001 million after related derivative and other hedge amounts). As at October 31, 2006, there were $2,202 million of investment securities that had been in a continuous unrealized loss position for more than 12 months. The associated unrealized loss on these securities as at October 31, 2006 was $45 million, of which $32 million related to debt securities and $13 million related to equities. Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature. Factors considered in determining whether a loss is other than temporary include: the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer; and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Pensions and other employee future benefits

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

Actuarial methods are used to calculate the annual cost of these employee future benefits, using management's best estimate of certain key assumptions, which are reviewed and approved once a year. These assumptions include the long-term rate of investment return on plan assets, future compensation, health care costs, employee turnover, retirement age and mortality. Management applies judgement when making these estimates, taking into consideration, among other things, expectations regarding future economic trends and business conditions, including inflation rates. As well, management reviews historical investment returns, salary increases and health care costs. The discount rate used for measuring the benefit obligation is another critical assumption used to calculate the pension and other employee future benefits expense. Management applies little judgment in selecting this rate, since it is generally prescribed to be equal to the current yield on long-term, high-quality corporate bonds with a duration similar to the benefit obligation.

Differences between actual experience and assumptions made by management will result in a net actuarial gain or loss, and will consequently increase or decrease the benefit expense for future years. In accordance with Canadian GAAP, the difference is amortized into income over future periods, rather than being recognized immediately as income. Management determines whether the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of each year. Any unrecognized net actuarial gain or loss above this 10% threshold is generally amortized into income over the estimated average remaining service period of active employees ranging from 11 to 22 years for the Bank's principal pension plans, and 11 to 27 years for the Bank's principal other benefit plans.

Note 17 on pages 112 to 113 of the 2006 consolidated financial statements discloses pension and other employee future benefit amounts, management's key assumptions, along with a sensitivity analysis of changes in these assumptions on both the benefit obligation and the benefit expense. Note 1 on pages 95 to 99 of the 2006 consolidated financial statements contains further details on the significant accounting policies underlying the accounting for employee future benefits. The management assumption with the greatest potential impact is the assumed long-term rate of return on assets. If this assumed long-term rate of return on assets was 1% lower (higher), the benefit expense for 2006 would have been $43 million higher (lower). Over the past 10-year period, the actual annualized rate of return of 10.5% on the assets of the Bank's main pension plan exceeded the assumed annualized rate by 3.1%.

Corporate income taxes

Judgment is exercised in determining the provision for income taxes and future income tax assets and liabilities. The provision for income taxes is estimated based on management's expectations regarding the income tax consequences of transactions and events during the period. The Bank operates in many jurisdictions, and management interprets the tax legislation for each jurisdiction and makes assumptions about the expected timing of the reversal of temporary differences that result from the different treatment of items for tax and accounting purposes. If management's interpretations of the legislation differ from those of the tax authorities, or if the actual timing of the reversals of the future tax asset and liabilities differs from the expected timing, the provision for income taxes could increase or decrease in future periods. Management is also required to assess whether it is likely that the future income tax assets will be realized prior to expiration and, based on this assessment, determine if the recording of a valuation allowance is required.

Total gross future tax assets relating to subsidiaries' unused income tax losses arising in prior years were $357 million as at October 31, 2006 (2005 – $180 million), for which the Bank established a valuation allowance of $183 million (2005 – $75 million) due to uncertainty about the realization of these losses. The increase in 2006 is related to subsidiaries acquired during the year. The Bank will adjust the valuation allowance if and when there is greater certainty of realizing this future tax asset.

The Bank's total net future income tax asset, including the net amount for tax loss carryforwards, was $1,478 million as at October 31, 2006 (2005 – $1,233 million). This year's increase related primarily to deferred compensation expense and future tax assets of subsidiaries acquired in 2006. Note 1 on pages 95 to 99 of the 2006 consolidated financial statements contains further details on the significant accounting policies underlying accounting for income taxes, and Note 16 on page 111 provides further information with respect to the Bank's provisions for income taxes.

Variable interest entities

In the normal course of business, the Bank enters into arrangements with variable interest entities (VIEs) on behalf of its customers and for its own account. Further details are provided on page 40 in the Off-balance sheet arrangements section. Management is required to exercise judgment to determine whether a VIE should be consolidated. This process involves understanding the arrangements, determining whether the entity is considered a VIE under the accounting rules, and determining the Bank's variable interests in the VIE. These interests are then compared to those of the unrelated outside parties to identify the party that is exposed to the majority of the VIE's expected losses, expected residual returns, or both, to determine who should consolidate the VIE. The comparison uses both qualitative and quantitative analytical techniques that may involve the use of a number of assumptions about the business environment in which the VIE operates and the amount and timing of future cash flows. Further details with respect to the Bank's involvement with VIEs are provided in Note 6 to the consolidated financial statements on pages 103 to 104.

Changes in accounting policies

The Bank's significant accounting policies are set out in Note 1 on pages 95 to 99 of the 2006 consolidated financial statements. Included within that note is a description of the changes in accounting policies required to be adopted in response to new accounting standards in 2006.

- In July 2006, the Bank early adopted the new Abstract issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants (CICA), on stock-based compensation for employees who are eligible to retire before the vesting date. This change in accounting policy, which is further described in Note 1 on page 99, resulted in an adjustment of $25 million (net of income taxes of $13 million) to opening fiscal 2006 retained earnings. The Bank has not restated net income for any prior period as a result of adopting this accounting change, as the impact is not material for any particular period. Adoption of this change resulted in an increase in net income of $6 million (net of taxes of $3 million) recorded in the 2006 Consolidated Statement of Income.

Future accounting policy changes

Financial instruments

The CICA has issued three new standards that apply to the Bank, and come into effect on November 1, 2006: Financial Instruments – Recognition and Measurement; Hedges; and Comprehensive Income. A description of these new standards and how they will affect the Bank's financial statements are set out in Note 2 on page 99 of the 2006 Consolidated Financial Statements.

The transitional impact of these new standards is still being evaluated, as guidance from accounting standard setters with respect to certain transitional issues was not available on a timely basis in order to allow the Bank to finalize the impact as at November 1, 2006. The impact of recording investment securities as available for sale assets at fair value on November 1, 2006 will be to increase securities by approximately $1,091 million and increase accumulated other comprehensive income by approximately $706 million (after tax).

Related party transactions

The Bank provides regular banking services to its associated and other related corporations in the ordinary course of business. These services are on terms similar to those offered to non-related parties.

Loans granted to directors and officers in Canada are at market terms and conditions. Prior to March 1, 2001, the Bank granted loans to officers and employees at reduced rates in Canada. The loans granted prior to March 1, 2001, are grandfathered until maturity. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers of those units at reduced rates or on preferred terms. Loans to executive officers of the Bank totaled $6.7 million as at October 31, 2006 (2005 – $5.1 million), and loans to directors totaled $0.1 million (2005 – $1.0 million).

Directors can use some or all of their fees to buy common shares at market rates through the Directors' Share Purchase Plan. Non-officer directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in 2004, the Bank no longer grants stock options to non-officer directors (refer to Note 15 of the Consolidated Financial Statements on page 110).

The Bank may also provide banking services to companies affiliated with the Bank's directors. These commercial arrangements are conducted at the same market terms and conditions provided to all customers and follow the normal credit review processes within the Bank. The Bank's committed credit exposure to companies controlled by directors totaled $533 million as at October 31, 2006 (2005 – $550 million), while actual utilized amounts were $303 million (2005 – $311 million).

The oversight responsibilities of the Audit and Conduct Review Committee (ACRC) with respect to related party transactions include reviewing policies and practices for identifying transactions with related parties that may materially affect the Bank, and reviewing the procedures for ensuring compliance with the Bank Act for related party transactions. The Bank Act requirements encompass a broader definition of related party transactions than is set out in generally accepted accounting principles. In addition, the ACRC approves the terms and conditions of all transactions between the Bank and Bank-sponsored asset securitization special purpose vehicles to ensure that such transactions are at market terms and conditions. The Bank has various procedures in place to ensure that related party information is identified and reported to the ACRC on a semi-annual basis. The ACRC is provided with detailed reports that reflect the Bank's compliance with its established procedures.

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

Supplementary Data*

Geographic information

Table 13 Net income by geographic segment

For the fiscal years ($ millions)	2006 Canada	2006 United States	2006 Mexico	2006 Other International	2006 Total	2005 Canada	2005 United States	2005 Mexico	2005 Other International	2005 Total	2004 Canada	2004 United States	2004 Mexico	2004 Other International	2004 Total
Net interest income	**$4,029**	**$ 71**	**$ 802**	**$1,656**	**$6,558**	$3,808	$199	$690	$1,438	$6,135	$3,624	$334	$599	$1,441	$5,998
Other income	**2,883**	**581**	**403**	**726**	**4,593**	2,737	484	363	716	4,300	2,495	513	331	727	4,066
Provision for credit losses	**273**	**(41)**	**27**	**17**	**276**	262	(93)	34	70	273	303	54	6	130	493
Non-interest expenses	**4,110**	**241**	**630**	**1,448**	**6,429**	3,917	246	669	1,185	6,017	3,794	262	618	1,158	5,832
Provision for income taxes	**478**	**138**	**(17)**	**153**	**752**	450	216	1	142	809	384	194	12	175	765
Non-controlling interest	**—**	**—**	**15**	**83**	**98**	—	—	10	61	71	—	—	15	60	75
Preferred dividends paid	**12**	**2**	**3**	**7**	**24**	9	2	2	6	19	6	2	1	3	12
	$2,039	**$312**	**$ 547**	**$ 674**	**$3,572**	$1,907	$312	$337	$ 690	$3,246	$1,632	$335	$278	$ 642	$2,887
Corporate adjustments(1)					**(23)**					(62)					5
Net income available to common shareholders					**$3,549**					$3,184					$2,892

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

Table 14 Loans and acceptances by geography

Excludes reverse repos As at September 30 ($ billions)	2006	2005	2004	2003	2002	Percentage mix 2006	Percentage mix 2002
Canada							
Atlantic provinces	**$ 12.7**	$ 12.1	$ 11.3	$ 10.0	$ 9.4	**6.2%**	**5.9%**
Quebec	**13.1**	9.8	8.4	7.9	7.1	**6.4**	4.4
Ontario	**81.5**	72.4	66.5	60.8	55.5	**39.8**	34.5
Manitoba and Saskatchewan	**5.4**	5.3	5.1	5.0	4.8	**2.6**	3.0
Alberta	**17.1**	14.7	13.7	11.7	11.1	**8.4**	6.9
British Columbia	**16.4**	14.2	13.3	12.8	12.3	**8.0**	7.6
	146.2	128.5	118.3	108.2	100.2	**71.4**	62.3
United States	**14.3**	8.8	9.8	13.8	21.5	**7.0**	13.3
Mexico	**9.3**	8.5	7.3	7.1	7.6	**4.5**	4.7
Other International							
Europe	**8.1**	7.3	6.1	8.0	10.8	**4.0**	6.7
Caribbean	**11.6**	10.1	10.1	10.2	11.6	**5.7**	7.2
Latin America	**9.2**	5.2	4.9	5.1	5.5	**4.4**	3.5
Other	**7.4**	6.5	5.0	5.0	5.2	**3.6**	3.2
	36.3	29.1	26.1	28.3	33.1	**17.7**	20.6
General allowance(1)	**(1.3)**	(1.3)	(1.4)	(1.5)	(1.5)	**(0.6)**	(0.9)
Total loans and acceptances	**$ 204.8**	$ 173.6	$ 160.1	$ 155.9	$ 160.9	**100.0%**	**100.0%**

(1) As at October 31.

Table 15 Gross Impaired loans by geographic segment

As at October 31 ($ millions)	2006	2005	2004	2003	2002
Canada	**$ 655**	$ 537	$ 489	$ 675	$ 639
United States	**119**	331	701	1,084	1,688
Mexico	**213**	190	223	398	464
Other International	**883**	762	787	1,105	1,221
Total	**$ 1,870**	$ 1,820	$ 2,200	$ 3,262	$ 4,012

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

Table 16 Specific provision for credit losses by geographic segment

For the fiscal years ($ millions)	2006	2005	2004	2003	2002
Canada	**$ 273**	$ 264	$ 299	$ 395	$ 296
United States	**(41)**	(93)	54	270	1,131
Mexico	**27**	34	6	2	(56)
Other International	**17**	70	131	226	658
Total	**$ 276**	$ 275	$ 490	$ 893	$ 2,029

Table 17 Geographic distribution of earning assets

	2006					
As at September 30 ($ billions)	Balance	% of earning assets	2005	2004	2003	2002
North America						
Canada	**$ 218.4**	**63.3%**	$ 187.2	$ 166.9	$ 158.5	$ 147.8
United States	**41.9**	**12.2**	32.5	25.0	34.1	46.4
	260.3	**75.5**	219.7	191.9	192.6	194.2
Mexico	**21.1**	**6.1**	20.4	18.7	18.2	20.3
Europe						
United Kingdom	**6.4**	**1.9**	6.8	7.4	8.1	10.2
Germany	**3.5**	**1.0**	2.0	3.5	2.9	2.8
Ireland	**4.8**	**1.4**	4.0	2.0	1.4	1.6
France	**2.5**	**0.7**	1.9	1.1	1.5	1.4
Netherlands	**1.5**	**0.4**	1.7	0.8	1.5	1.1
Other	**3.4**	**1.0**	4.2	3.4	4.8	5.0
	22.1	**6.4**	20.6	18.2	20.2	22.1
Caribbean						
Jamaica	**3.1**	**0.9**	2.8	3.0	2.6	3.4
Puerto Rico	**2.0**	**0.6**	1.7	1.9	2.1	2.6
Bahamas	**2.4**	**0.7**	1.8	1.7	1.7	1.8
Trinidad &Tobago	**1.5**	**0.4**	1.7	1.5	1.6	1.7
Other	**9.0**	**2.6**	6.1	6.7	6.4	6.9
	18.0	**5.2**	14.1	14.8	14.4	16.4
Latin America						
Chile	**4.2**	**1.2**	3.2	3.3	3.4	3.6
Peru	**4.1**	**1.2**	0.1	0.2	0.2	0.2
Other	**4.3**	**1.3**	3.7	3.3	3.5	3.7
	12.6	**3.7**	7.0	6.8	7.1	7.5
Asia						
India	**1.8**	**0.5**	1.5	2.0	1.1	1.1
Malaysia	**1.3**	**0.4**	1.8	1.4	1.5	1.6
South Korea	**1.6**	**0.5**	1.7	1.4	1.8	2.3
Japan	**1.1**	**0.3**	1.0	1.1	1.7	1.6
Hong Kong	**1.7**	**0.5**	1.4	0.9	1.0	1.2
Other	**2.9**	**0.8**	2.7	2.4	2.0	2.2
	10.4	**3.0**	10.1	9.2	9.1	10.0
Middle East and Africa	**1.8**	**0.5**	1.1	0.7	0.4	0.5
General allowance(1)	**(1.3)**	**(0.4)**	(1.3)	(1.4)	(1.5)	(1.5)
Total	**$ 345.0**	**100.0%**	$ 291.7	$ 258.9	$ 260.5	$ 269.5

(1) As at October 31.

SUPPLEMENTARY DATA

Credit risk

Table 18 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(2)	Other	**2006 Total**	2005 Total
Mexico	$ 1,496	$ —	$ 103	$ 597	$ 1,892	$ 5	**$4,093**	$ 3,272
Asia								
South Korea	$ 473	$ —	$ 324	$ 528	$ —	$ 80	**$1,405**	$ 1,278
Japan	623	8	121	270	—	110	**1,132**	1,342
Malaysia	358	—	1	350	144	—	**853**	1,107
India	691	39	523	250	—	21	**1,524**	1,282
Hong Kong	370	—	25	680	—	7	**1,082**	955
China	353	45	535	46	—	10	**989**	701
Other(3)	378	96	178	374	—	4	**1,030**	744
	$ 3,246	$ 188	$ 1,707	$ 2,498	$ 144	$ 232	**$8,015**	$ 7,409
Latin America								
Brazil	$ 727	$ —	$ 364	$ 375	$ —	$ 1	**$1,467**	$ 751
Chile	771	—	20	—	294	—	**1,085**	773
Venezuela	2	—	14	64	81	—	**161**	171
Peru	54	—	23	30	278	—	**385**	114
Costa Rica	368	—	21	—	375	—	**764**	384
El Salvador	222	—	16	—	201	—	**439**	408
Other(4)	580	9	31	69	—	—	**689**	708
	$ 2,724	$ 9	$ 489	$ 538	$ 1,229	$ 1	**$4,990**	$ 3,309

(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) Excludes goodwill of $114 (2005 – $116) in Chile, $131 (2005 – $129) in El Salvador, and $189 (2005 – nil) in Peru.

(3) Includes Indonesia, The Philippines, Singapore, Taiwan and Thailand.

(4) Includes Argentina, Colombia, Panama and Uruguay.

Table 19 Loans and acceptances by type of borrower

Excludes reverse repos As at September 30 ($ billions)	**2006** **Balance**	**% of total**	2005	2004
Loans to households				
Residential mortgages	**$ 88.2**	**43.1%**	$ 74.6	$ 68.3
Credit cards	**9.1**	**4.4**	8.6	7.8
Personal loans	**29.4**	**14.3**	25.6	22.0
	126.7	**61.8**	108.8	98.1
Loans to businesses and governments				
Financial services	**13.0**	**6.4**	9.5	7.1
Wholesale and retail	**10.2**	**5.0**	10.2	10.2
Real estate and construction	**7.0**	**3.4**	6.0	5.6
Oil and gas	**5.2**	**2.5**	3.1	3.1
Transportation	**4.9**	**2.4**	4.0	4.1
Automotive	**4.7**	**2.3**	5.8	4.8
Agriculture	**3.4**	**1.7**	2.9	2.9
Government	**3.4**	**1.6**	2.0	2.2
Hotels and leisure	**3.4**	**1.7**	2.8	3.4
Mining and primary metals	**3.1**	**1.5**	2.7	2.6
Utilities	**2.9**	**1.4**	1.4	1.8
Health care	**2.9**	**1.4**	2.0	2.1
Telecommunications and cable	**2.5**	**1.2**	1.7	2.0
Media	**2.4**	**1.2**	2.0	2.2
Chemical	**2.2**	**1.1**	2.2	2.2
Food and beverage	**2.2**	**1.1**	2.1	2.2
Forest products	**1.5**	**0.7**	1.8	1.4
Other	**4.5**	**2.2**	3.9	3.5
	79.4	**38.8**	66.1	63.4
	206.1	**100.6**	174.9	161.5
General allowance(1)	**(1.3)**	**(0.6)**	(1.3)	(1.4)
Total loans and acceptances	**$ 204.8**	**100.0%**	$ 173.6	$ 160.1

(1) As at October 31.

Table 20 Off-balance sheet credit instruments

As at October 31 ($ billions)	2006	2005	2004	2003	2002
Commitments to extend credit	**$ 105.9**	$ 99.9	$ 104.2	$ 110.5	$ 127.0
Standby letters of credit and letters of guarantee	**18.5**	15.8	14.4	14.2	14.8
Securities lending, securities purchase commitments and other	**13.0**	9.3	4.8	7.7	5.9
Total	**$ 137.4**	$ 125.0	$ 123.4	$ 132.4	$ 147.7

Table 21 Changes in net impaired loans (1)

For the fiscal years ($ millions)	2006	2005	2004	2003	2002
Gross impaired loans					
Balance at beginning of year	**$ 1,820**	$ 2,200	$ 3,241	$ 3,987	$ 4,439
Net additions					
New additions	**1,262**	1,263	1,774	2,634	4,843
Declassifications, payments and loan sales	**(956)**	(1,034)	(1,680)	(1,936)	(1,789)
	306	229	94	698	3,054
Acquisition of subsidiaries	**340**	64	—	—	—
Disposal of Scotiabank Quilmes operations (2)	**—**	—	—	—	(1,006)
Writeoffs					
Residential mortgages	**(5)**	(6)	(7)	(9)	
Personal loans	**(214)**	(237)	(198)	(192)	
Credit cards	**(150)**	(130)	(145)	(116)	
Business and government	**(174)**	(277)	(632)	(610)	
	(543)	(650)	(982)	(927)	(2,376)
Foreign exchange and other	**(53)**	(23)	(153)	(517)	(124)
Balance at end of year	**1,870**	1,820	2,200	3,241	3,987
Specific allowance for credit losses					
Balance at beginning of year	**1,139**	1,321	1,719	1,892	2,705
Acquisition of subsidiaries	**323**	59	—	—	—
Specific provision for credit losses	**276**	275	490	893	2,029
Disposal of Scotiabank Quilmes operations (2)	**—**	—	—	—	(504)
Writeoffs	**(543)**	(650)	(982)	(927)	(2,376)
Recoveries by portfolio					
Residential mortgages	**3**	1	2	1	
Personal loans	**71**	75	78	79	
Credit cards	**37**	32	32	26	
Business and government	**70**	97	46	58	
	181	205	158	164	169
Foreign exchange and other (3)	**(76)**	(71)	(64)	(303)	(131)
Balance at end of year	**1,300**	1,139	1,321	1,719	1,892
Net impaired loans					
Balance at beginning of year	**681**	879	1,522	2,095	1,734
Net change in gross impaired loans	**50**	(380)	(1,041)	(746)	(452)
Net change in specific allowance for credit losses	**(161)**	182	398	173	813
Balance at end of year	**570**	681	879	1,522	2,095
General allowance for credit losses	**1,307**	1,330	1,375	1,475	1,475
Balance after deducting general allowance	**$ (737)**	$ (649)	$ (496)	$ 47	$ 620

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

(2) Includes foreign exchange impact.

(3) Includes $5 transferred to other liabilities in 2006, $2 transferred from other liabilities in 2005, and $23 reclassified from country risk allowance and $8 transferred to other liabilities in 2004.

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Table 22 Provisions for credit losses

For the fiscal years ($ millions)	2006	2005	2004	2003	2002
Specific provisions for credit losses					
Net specific provisions	**$ 457**	$ 480	$ 648	$ 1,057	$ 2,198
Recoveries	**(181)**	(205)	(158)	(164)	(169)
Net Specific provisions for credit losses(1)	**276**	275	490	893	2,029
General provision	**(60)**	(45)	(100)	—	—
Total net provisions for credit losses	**$ 216**	$ 230	$ 390	$ 893	$ 2,029

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

Table 23 Specific provisions for credit losses by type of borrower

For the fiscal years ($ millions)	2006	2005	2004
Personal			
Residential mortgages	**$ 10**	$ 11	$ 20
Other personal loans	**283**	275	221
	293	286	241
Businesses and governments			
Financial services	**—**	10	(2)
Wholesale and retail	**5**	11	99
Real estate and construction	**(7)**	27	11
Oil and gas	**—**	(3)	—
Transportation	**4**	(6)	(25)
Automotive	**11**	6	26
Agriculture	**2**	11	50
Government	**(6)**	5	4
Hotels and leisure	**(21)**	20	(12)
Mining and primary metals	**(10)**	(47)	(1)
Utilities	**(21)**	(71)	27
Health care	**2**	3	4
Telecommunications and cable	**(14)**	17	2
Media	**(4)**	(3)	(12)
Chemical	**13**	4	(3)
Food and beverage	**7**	(17)	73
Forest products	**(1)**	10	(4)
Other	**23**	12	12
	(17)	(11)	249
Total specific provisions	**$ 276**	$ 275	$ 490

Table 24 Non-performing loans by type of borrower

Excluding reverse repos As at October 31 ($ millions)	2006 Net	2006 Allowance for credit losses	2006 Gross	2005 Net	2005 Allowance for credit losses	2005 Gross
Personal						
Residential mortgages	**$ 178**	**$ (138)**	**$ 316**	$ 158	$ (106)	$ 264
Other personal loans	**13**	**(456)**	**469**	10	(356)	366
	191	**(594)**	**785**	168	(462)	630
Businesses and governments						
Financial services	**—**	**(9)**	**9**	—	(12)	12
Wholesale and retail	**58**	**(167)**	**225**	55	(122)	177
Real estate and construction	**84**	**(134)**	**218**	36	(92)	128
Oil and gas	**—**	**—**	**—**	—	(1)	1
Transportation	**1**	**(42)**	**43**	10	(54)	64
Automotive	**20**	**(34)**	**54**	19	(11)	30
Agriculture	**18**	**(40)**	**58**	17	(37)	54
Government	**—**	**(8)**	**8**	—	(21)	21
Hotels and leisure	**42**	**(12)**	**54**	82	(56)	138
Mining and primary metals	**4**	**(40)**	**44**	—	(33)	33
Utilities	**4**	**(17)**	**21**	28	(44)	73
Health care	**3**	**(15)**	**18**	10	(9)	19
Telecommunications and cable	**88**	**(38)**	**126**	167	(59)	226
Media	**2**	**(7)**	**9**	—	(9)	9
Chemical	**—**	**(33)**	**33**	37	(24)	61
Food and beverage	**1**	**(37)**	**38**	19	(22)	41
Forest products	**5**	**(15)**	**20**	4	(16)	20
Other	**49**	**(58)**	**107**	27	(56)	84
	379	**(706)**	**1,085**	513	(677)	1,190
	570	**$ (1,300)**	**$1,870**	681	$ (1,139)	$ 1,820
Allowance for credit losses – general	**(1,307)**			(1,330)		
Net impaired loans after general allowance	**$ (737)**	**$ (1,300)**	**$1,870**	$ (649)	$ (1,319)	$ 1,820

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Capital

Table 25 Capital funding activity

Issues		Maturities/Redemptions/Repurchases
Tier 1 Capital		Preferred shares
September 28, 2006	$750,000,000 Scotiabank Trust Securities 2006-1	None
		Subordinated debentures
		February 8, 2006 — $300,000,000 7.4% debentures due February 8, 2011

Table 26 Risk-weighted assets

As at October 31 ($ billions)			2006		2005	
Conversion factor	Weighting factor		Gross	Risk-weighted	Gross	Risk-weighted
On-balance sheet						
–	0 – 20%	Cash resources	**$ 23.4**	**$ 4.4**	$ 20.5	$ 2.8
–	0 – 100%	Securities(1)	**95.5**	**12.3**	73.5	7.4
–	0 – 50%	Residential mortgages	**89.4**	**30.3**	75.4	25.3
–	0 – 100%	Loans and acceptances	**148.6**	**103.5**	123.2	85.1
–	0 – 100%	Other assets	**22.1**	**8.2**	21.4	5.3
		Total on-balance sheet	**379.0**	**158.7**	314.0	125.9
Off-balance sheet						
		Indirect credit instruments				
0 – 10%	0 – 100%	One year and under credit commitments	**61.4**	**0.8**	57.6	1.2
20%	0 – 100%	Short-term trade letters of credit	**1.0**	**0.1**	0.9	0.2
50%	0 – 100%	Longer-term credit commitments	**44.5**	**17.7**	42.3	17.4
50%	0 – 100%	Performance guarantees	**8.4**	**4.2**	6.7	3.4
100%	0 – 100%	Standby letters of credit, letters of guarantee, securities lending and other commitments	**22.1**	**6.4**	17.5	7.5
			137.4	**29.2**	125.0	29.7
		Interest rate instruments				
0 – 1.5%	0 – 50%	Futures and forward rate agreements	**148.0**	**—**	100.1	—
0 – 1.5%	0 – 50%	Interest rate swaps	**472.1**	**1.3**	415.9	1.3
0 – 1.5%	0 – 50%	Interest rate options	**66.1**	**0.1**	64.9	0.1
			686.2	**1.4**	580.9	1.4
		Foreign exchange instruments				
1 – 7.5%	0 – 50%	Futures and foreign exchange contracts	**197.0**	**1.4**	188.1	1.5
1 – 7.5%	0 – 50%	Currency swaps	**85.4**	**2.1**	61.6	1.9
1 – 7.5%	0 – 50%	Currency options	**5.2**	**—**	4.3	—
			287.6	**3.5**	254.0	3.4
		Other derivative instruments				
6 – 10%	0 – 50%	Equity swaps and options	**31.3**	**0.7**	27.5	0.8
6 – 15%	0 – 50%	Credit derivatives	**34.8**	**0.7**	21.0	0.5
7 – 15%	0 – 50%	Other	**4.8**	**0.3**	2.9	0.1
			70.9	**1.7**	51.4	1.4
		Total off-balance sheet	**1,182.1**	**35.8**	1,011.3	35.9
		Total gross and risk-weighted assets	**1,561.1**	**194.5**	1,325.3	161.8
		Impact of master netting		**(2.5)**		(2.3)
		Market risk – risk assets equivalent (1)		**5.0**		3.3
		Total	**$1,561.1**	**$ 197.0**	$1,325.3	$162.8

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

Revenues and Expenses

Table 27 Volume/rate analysis of changes in net interest income

Taxable equivalent basis[1] For the fiscal years ($ millions)	2006 versus 2005 Increase (decrease) due to change in: Average volume	Average rate	Net change	2005 versus 2004 Increase (decrease) due to change in: Average volume	Average rate	Net change
Net interest income						
Total earning assets	**$ 1,930**	**$ 2,063**	**$ 3,993**	$ 1,245	$ 433	$ 1,678
Total interest-bearing liabilities	**(1,130)**	**(2,212)**	**(3,342)**	(650)	(806)	(1,456)
Change in net interest income	**$ 800**	**$ (149)**	**$ 651**	$ 595	$ (373)	$ 222

(1) Refer to the non-GAAP measures on page 28.

Table 28 Other income

For the fiscal years ($ millions)	2006	2005	2004	2003	2002	2006 versus 2005
Card revenues	**$ 307**	$ 251	$ 231	$ 204	$ 280	**22%**
Deposit and payment services						
Deposit services	**622**	581	536	479	445	**7**
Other payment services	**144**	120	110	114	111	**20**
	766	701	646	593	556	**9**
Mutual funds	**241**	193	171	161	174	**25**
Investment management, brokerage and trust						
Retail brokerage	**481**	427	335	280	304	**13**
Investment management and custody	**70**	62	53	53	32	**14**
Personal and corporate trust	**115**	111	116	122	137	**3**
	666	600	504	455	473	**11**
Credit fees						
Commitment and other credit fees	**414**	436	477	565	540	**(5)**
Acceptance fees	**116**	106	106	119	131	**10**
	530	542	583	684	671	**(2)**
Trading revenues	**637**	594	476	501	439[1]	**7**
Investment banking						
Underwriting fees and other commissions	**453**	493	477	472	405	**(8)**
Foreign exchange and other	**206**	187	171	201	187	**10**
	659	680	648	673	592	**(3)**
Net gain on investment securities	**371**	414	477	159	179[1]	**(10)**
Securitization revenues	**43**	79	111	140	162	**(46)**
Other	**580**	475	473	445	317[1]	**22**
Total before the undernoted	**4,800**	4,529	4,320	4,015	3,843	**6**
Gains on sale of businesses	**—**	—	—	—	99	**—**
Total other income	**$ 4,800**	$ 4,529	$ 4,320	$ 4,015	$ 3,942	**6%**
Percentage increase (decrease) over previous year	**6%**	5%	8%	2%	(3)%	

(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.

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Table 29 Non-interest expenses and productivity

For the fiscal years ($ millions)	2006	2005	2004	2003	2002	2006 versus 2005
Salaries and employee benefits						
Salaries	**$ 2,100**	$ 1,963	$ 1,933	$ 2,001	$ 2,091	**7%**
Performance-based compensation	**936**	880	817	801	813	**6**
Stock-based compensation	**164**	140	174	119	21	**17**
Pensions and other employee benefits	**568**	505	528	440	419	**13**
	3,768	3,488	3,452	3,361	3,344	**8**
Premises and technology						
Net premises rent	**181**	176	170	180	192	**3**
Premises repairs and maintenance	**60**	50	46	44	53	**21**
Property taxes	**61**	61	58	56	57	**—**
Computer equipment, software and data processing	**549**	519	509	498	456	**6**
Depreciation	**192**	173	189	208	243	**11**
Other premises costs	**171**	169	167	170	182	**1**
	1,214	1,148	1,139	1,156	1,183	**6**
Communications						
Telecommunications	**68**	64	63	68	74	**6**
Stationery, postage and courier	**208**	191	185	183	207	**9**
	276	255	248	251	281	**8**
Advertising and business development						
Advertising and promotion	**126**	139	113	103	105	**(9)**
Travel and business development	**106**	93	97	96	103	**14**
	232	232	210	199	208	**—**
Professional	**174**	186	163	141	136	**(7)**
Business and capital taxes						
Business taxes	**98**	91	89	90	118	**9**
Capital taxes	**35**	56	53	54	50	**(38)**
	133	147	142	144	168	**(9)**
Other						
Employee training	**47**	45	43	37	42	**3**
Amortization of goodwill and other intangibles	**38**	29	27	29	28	**29**
Other	**561**	513	438	382	347	**10**
	646	587	508	448	417	**10**
Total before the undernoted	**6,443**	6,043	5,862	5,700	5,737	**7**
Loss on disposal of subsidiary operations(1)	**—**	—	—	31	237	**—**
Total non-interest expenses	**$ 6,443**	$ 6,043	$ 5,862	$ 5,731	$ 5,974	**7%**
Productivity ratio (TEB)(2)	**55.3%**	56.3%	56.9%	55.9%	55.7%	

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

(2) Taxable equivalent basis. Refer to the non-GAAP measures on page 28.

Table 30 Taxes

For the fiscal years ($ millions)	2006	2005	2004	2003	2002	2006 versus 2005
Income taxes						
Provision for income taxes(1)	**$ 872**	$ 847	$ 786	$ 777	$ 594	**3%**
Taxable equivalent adjustment(2)	**440**	326	274	278	268	**35**
Provision for income taxes (TEB)(2)	**1,312**	1,173	1,060	1,055	862	**12**
Other taxes						
Payroll taxes	**152**	137	139	139	149	**11**
Business and capital taxes	**133**	147	142	144	168	**(9)**
Goods and services and other	**128**	132	121	110	114	**(4)**
Total other taxes	**413**	416	402	393	431	**(1)**
Total taxes(3)	**$ 1,725**	$ 1,589	$ 1,462	$ 1,448	$ 1,293	**9%**

(1) Includes provision for (recovery of) income tax related to the loss on disposal of subsidiary operations for Scotiabank Quilmes in 2003 – $3; 2002 – $(254).

(2) Taxable equivalent basis. Refer to the non-GAAP measures on page 28.

(3) Comprised of $1,035 of Canadian taxes (2005 – $988; 2004 – $910; 2003 – $953; 2002 – $811) and $690 of foreign taxes (2005 – $601; 2004 – $552; 2003 – $495; 2002 – $482).

Other information

Table 31 Components of net income as a percentage of average total assets (1)

Taxable equivalent basis For the fiscal years (%)	2006	2005	2004	2003	2002
Net interest income	**$ 1.95%**	2.00%	2.10%	2.16%	2.29%
Provision for credit losses	**(0.06)**	(0.07)	(0.14)	(0.31)	(0.69)
Other income	**1.37**	1.46	1.52	1.39	1.33
Net interest and other income	**3.26**	3.39	3.48	3.24	2.93
Non-interest expenses	**(1.84)**	(1.95)	(2.06)	(1.98)	(2.01)
Net income before the undernoted:	**1.42**	1.44	1.42	1.26	0.92
Provision for income taxes and non-controlling interest	**(0.40)**	(0.40)	(0.40)	(0.42)	(0.34)
Net income	**1.02%**	1.04%	1.02%	0.84%	0.58%
Average total assets ($ billions)	**$ 350.7**	$ 309.4	$ 284.0	$ 288.5	$ 296.9

(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: 2006 – $440 million; 2005 – $326 million; 2004 – $274 million; 2003 – $278 million; 2002 – $268 million.

Table 32 General allowance and unrealized gains (losses) on investment securities

As at October 31 ($ millions)	2006	2005	2004	2003	2002
General allowance	**$ 1,307**	$ 1,330	$ 1,375	$ 1,475	$ 1,475
Unrealized gains (losses) on investment securities					
Common and preferred shares	**519**	$ 499	$ 502	$ 164	$ (131)
Emerging market bonds	**584**	574	507	512	219
Other fixed income	**(102)**	(38)	39	27	(113)
	$ 1,001	$ 1,035	$ 1,048	$ 703	$ (25)

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Table 33 Assets under administration and management

As at September 30 ($ billions)	2006	2005	2004	2003	2002
Assets under administration					
Personal					
Retail brokerage	**$ 69.7**	$ 64.2	$ 54.2	$ 47.4	$ 41.0
Investment management and trust	**59.5**	57.0	53.4	56.6	57.1
	129.2	121.2	107.6	104.0	98.1
Mutual funds	**19.8**	18.4	15.8	14.2	14.4
Institutional	**42.9**	31.8	33.4	43.8	31.9
Total	**$ 191.9**	$ 171.4	$ 156.8	$ 162.0	$ 144.4
Assets under management					
Personal	**$ 10.0**	$ 9.4	$ 7.5	$ 7.0	$ 7.8
Mutual funds	**13.2**	13.4	11.8	11.6	12.2
Institutional	**4.6**	3.8	1.9	1.4	1.5
Total	**$ 27.8**	$ 26.6	$ 21.2	$ 20.0	$ 21.5

Table 34 Fees paid to the shareholders' auditors

For the fiscal years ($ millions)	2006(1)	2005(2)
Audit services	**$ 12.8**	$ 12.8
Audit-related services	**0.1**	1.6
Tax services outside of the audit scope	**0.3**	1.6
Other non-audit services	**0.1**	1.4
	$ 13.3	$ 17.4

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

(2) Fees in 2005 relate to the joint Shareholders' Auditors, KPMG LLP and PricewaterhouseCoopers LLP. For the respective categories, the amounts paid to PricewaterhouseCoopers LLP were $6.3 million, $0.7 million, $0.7 million, and $0.7 million, respectively.

Table 35 Selected quarterly information

As at and for the quarter ended	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Operating results ($ millions)								
Net interest income (TEB(1))	**1,783**	**1,816**	**1,644**	**1,605**	1,581	1,561	1,552	1,503
Total revenue (TEB(1))	**2,999**	**2,989**	**2,830**	**2,830**	2,735	2,689	2,688	2,614
Provision for credit losses	**32**	**74**	**35**	**75**	36	85	35	74
Non-interest expenses	**1,708**	**1,608**	**1,565**	**1,562**	1,579	1,517	1,490	1,457
Provision for income taxes (TEB(1))	**334**	**344**	**313**	**321**	289	286	320	278
Net income	**897**	**936**	**894**	**852**	811	784	826	788
Net income available to common shareholders	**890**	**928**	**887**	**844**	803	775	822	784
Operating performance								
Basic earnings per Share ($)	**0.90**	**0.94**	**0.90**	**0.85**	0.81	0.78	0.82	0.78
Diluted earnings per share ($)	**0.89**	**0.93**	**0.89**	**0.84**	0.80	0.77	0.81	0.77
Return on equity (%)	**21.1**	**22.8**	**23.2**	**21.6**	20.5	19.9	22.3	21.0
Productivity ratio (%)(TEB(1))	**56.9**	**53.8**	**55.3**	**55.2**	57.8	56.4	55.4	55.7
Net interest margin on total average assets (%)(TEB(1))	**1.89**	**1.98**	**1.97**	**1.97**	1.97	1.97	2.07	2.00
Balance sheet information ($ billions)								
Cash resources and securities	**118.9**	**115.5**	**113.8**	**102.0**	94.0	95.9	93.4	89.1
Loans and acceptances	**238.0**	**225.4**	**214.4**	**200.8**	198.6	199.5	192.8	188.6
Total assets	**379.0**	**365.0**	**357.0**	**325.0**	314.0	317.5	309.1	300.5
Deposits	**263.9**	**255.2**	**247.6**	**227.5**	217.4	220.0	214.8	206.9
Preferred shares	**0.6**	**0.6**	**0.6**	**0.6**	0.6	0.6	0.6	0.3
Common shareholders' equity(2)	**16.9**	**16.5**	**15.8**	**15.6**	15.5	15.6	15.3	14.9
Assets under administration	**191.9**	**180.9**	**188.5**	**174.1**	171.4	166.7	163.0	158.0
Assets under management	**27.8**	**26.6**	**26.9**	**26.2**	26.6	24.0	23.4	22.6
Capital measures (%)								
Tier 1 capital ratio	**10.2**	**10.0**	**10.2**	**10.8**	11.1	11.1	11.4	11.2
Total capital ratio	**11.7**	**11.6**	**11.9**	**12.8**	13.2	13.1	13.4	13.5
Common equity to risk-weighted assets(2)	**8.8**	**8.9**	**9.0**	**9.4**	9.7	9.7	9.8	9.8
Tangible common equity to risk-weighted assets(2) (3)	**8.3**	**8.4**	**8.5**	**9.0**	9.3	9.3	9.5	9.5
Risk-weighted assets ($ billions)	**197.0**	**190.3**	**180.1**	**168.9**	162.8	163.8	160.1	155.5
Credit quality								
Net impaired loans(4) ($ millions)	**570**	**479**	**579**	**659**	681	573	666	762
General allowance for credit losses ($ millions)	**1,307**	**1,330**	**1,330**	**1,330**	1,330	1,375	1,375	1,375
Net impaired loans as a % of loans and acceptances(4)	**0.24**	**0.21**	**0.27**	**0.33**	0.34	0.29	0.35	0.40
Specific provision for credit losses as a % of average loans and acceptances (annualized)	**0.16**	**0.13**	**0.07**	**0.15**	0.16	0.17	0.07	0.16
Common share information								
Share price ($)								
High	**49.50**	**47.24**	**48.67**	**49.80**	44.22	42.64	41.37	41.35
Low	**45.36**	**41.55**	**45.03**	**42.89**	40.31	39.19	38.63	36.41
Close	**49.30**	**45.55**	**46.52**	**46.25**	42.99	41.75	39.99	39.50
Shares outstanding (millions)								
Average – Basic	**989**	**988**	**988**	**989**	995	995	996	1,006
Average – Diluted	**1,000**	**999**	**1,001**	**1,002**	1,008	1,009	1,011	1,021
End of period	**990**	**988**	**988**	**988**	990	995	994	998
Dividends per share ($)	**0.39**	**0.39**	**0.36**	**0.36**	0.34	0.34	0.32	0.32
Dividend yield (%)	**3.3**	**3.5**	**3.1**	**3.1**	3.2	3.3	3.2	3.3
Dividend payout ratio(5) (%)	**43.3**	**41.5**	**40.1**	**42.2**	42.1	43.7	38.7	41.1

Market capitalization ($ billions)	**48.8**	**45.0**	**45.9**	**45.7**	42.6	41.5	39.7	39.4
Book value per common share(2) ($)	**17.13**	**16.66**	**15.98**	**15.76**	15.64	15.68	15.44	14.95
Market value to book value multiple	**2.9**	**2.7**	**2.9**	**2.9**	2.7	2.7	2.6	2.6
Price to earnings multiple (trailing 4 quarters)	**13.7**	**13.0**	**13.9**	**14.2**	13.5	13.6	13.2	13.3

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 28.

(2) Refer to Note 1 to the Consolidated Financial Statements on page 99 for the new accounting policy related to stock-based compensation for employees eligible to retire before the vesting date. Certain balance sheet figures and ratios have been restated, where applicable, as a result of the adjustment to retained earnings as of November 1, 2005.

(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.

SUPPLEMENTARY DATA

Eleven-year Statistical Review
Consolidated Balance Sheet

As at October 31 ($ millions)	2006	2005	2004	2003
Assets				
Cash resources	**$ 23,376**	$ 20,505	$ 17,155	$ 20,581
Securities				
Investment	**33,012**	23,452	15,717	20,293
Trading	**62,490**	50,007	43,056	42,899
	95,502	73,459	58,773	63,192
Loans				
Residential mortgages	**89,590**	75,520	69,018	61,646
Personal and credit cards	**39,058**	34,695	30,182	26,277
Business and government	**76,733**	62,681	57,384	64,313
Securities purchased under resale agreements	**25,705**	20,578	17,880	22,648
	231,086	193,474	174,464	174,884
Allowance for credit losses	**2,607**	2,469	2,696	3,217
	228,479	191,005	171,768	171,667
Other				
Customers' liability under acceptances	**9,555**	7,576	7,086	6,811
Trading derivatives' market valuation	**10,369**	11,622	14,198	15,308
Land, buildings and equipment	**2,256**	1,934	1,872	1,944
Other assets	**9,469**	7,924	8,360	6,389
	31,649	29,056	31,516	30,452
	$379,006	$314,025	$279,212	$285,892
Liabilities and shareholders' equity				
Deposits				
Personal	**$ 93,450**	$ 83,953	$ 79,020	$ 76,431
Business and government	**141,072**	109,389	94,125	93,541
Banks	**29,392**	24,103	22,051	22,700
	263,914	217,445	195,196	192,672
Other				
Acceptances	**9,555**	7,576	7,086	6,811
Obligations related to securities sold under repurchase agreements	**33,470**	26,032	19,428	28,686
Obligations related to securities sold short	**13,396**	11,250	7,585	9,219
Trading derivatives' market valuation	**11,211**	11,193	14,054	14,758
Other liabilities	**26,457**	20,794	15,733	14,145
Non-controlling interest in subsidiaries	**435**	306	280	326
	94,524	77,151	64,166	73,945
Subordinated debentures	**2,271**	2,597	2,615	2,661
Capital instrument liabilities	**750**	750	2,250	2,500
Shareholders' equity				
Capital stock				
Preferred shares	**600**	600	300	300
Common shares and contributed surplus	**3,425**	3,317	3,229	3,141
Retained earnings and cumulative foreign currency translation losses	**13,522**	12,165	11,456	10,673
	17,547	16,082	14,985	14,114
	$379,006	$314,025	$279,212	$285,892

2002	2001	2000	1999	1998	1997	1996
$ 20,273	$ 20,160	$ 18,744	$ 17,115	$ 22,900	$ 18,174	$ 14,737
21,602	25,450	19,565	20,030	17,392	17,091	15,835
34,592	27,834	21,821	13,939	12,108	10,908	10,070
56,194	53,284	41,386	33,969	29,500	27,999	25,905
56,295	52,592	50,037	47,916	45,884	41,727	30,683
23,363	20,116	17,988	16,748	18,801	17,764	16,801
77,181	79,460	78,172	69,873	76,542	59,353	50,408
32,262	27,500	23,559	13,921	11,189	8,520	9,112
189,101	179,668	169,756	148,458	152,416	127,364	107,004
3,430	4,236	2,853	2,599	1,934	1,625	1,568
185,671	175,432	166,903	145,859	150,482	125,739	105,436
8,399	9,301	8,807	9,163	8,888	7,575	5,945
15,821	15,886	8,244	8,039	13,675	8,925	8,978
2,101	2,325	1,631	1,681	1,759	1,716	1,523
7,921	8,037	7,456	6,865	6,384	5,025	2,777
34,242	35,549	26,138	25,748	30,706	23,241	19,223
$ 296,380	$ 284,425	$ 253,171	$ 222,691	$ 233,588	$ 195,153	$ 165,301
$ 75,558	$ 75,573	$ 68,972	$ 65,715	$ 62,656	$ 59,239	$ 47,768
93,830	80,810	76,980	64,070	70,779	56,928	44,981
26,230	29,812	27,948	26,833	32,925	22,808	25,145
195,618	186,195	173,900	156,618	166,360	138,975	117,894
8,399	9,301	8,807	9,163	8,888	7,575	5,945
31,881	30,627	23,792	16,781	14,603	11,559	7,894
8,737	6,442	4,297	2,833	3,121	3,739	6,509
15,500	15,453	8,715	8,651	14,360	8,872	8,571
15,678	15,369	14,586	11,667	9,787	9,731	7,387
662	586	229	198	173	137	101
80,857	77,778	60,426	49,293	50,932	41,613	36,407
3,878	5,344	5,370	5,374	5,482	5,167	3,251
2,225	1,975	1,975	1,475	1,475	1,468	1,325
300	300	300	300	300	—	—
3,002	2,920	2,765	2,678	2,625	2,567	2,161
10,500	9,913	8,435	6,953	6,414	5,363	4,263
13,802	13,133	11,500	9,931	9,339	7,930	6,424
$ 296,380	$ 284,425	$ 253,171	$ 222,691	$ 233,588	$ 195,153	$ 165,301

SUPPLEMENTARY DATA

Consolidated Statement of Income

For the year ended October 31 ($ millions)	2006	2005	2004	2003
Interest income				
Loans	**$ 12,677**	$ 10,053	$ 9,074	$ 9,945
Securities	**4,124**	3,104	2,662	2,859
Deposits with banks	**881**	646	441	442
	17,682	13,803	12,177	13,246
Interest expense				
Deposits	**8,589**	5,755	4,790	5,222
Subordinated debentures	**130**	134	112	139
Capital instrument liabilities	**53**	53	164	182
Other	**2,502**	1,990	1,410	1,735
	11,274	7,932	6,476	7,278
Net interest income	**6,408**	5,871	5,701	5,968
Provision for credit losses	**216**	230	390	893
Net interest income after provision for credit losses	**6,192**	5,641	5,311	5,075
Other income	**4,800**	4,529	4,320	4,015
Net interest and other income	**10,992**	10,170	9,631	9,090
Non-interest expenses				
Salaries and employee benefits	**3,768**	3,488	3,452	3,361
Other(2)	**2,675**	2,555	2,410	2,370
Restructuring provisions following acquisitions	**—**	—	—	—
	6,443	6,043	5,862	5,731
Income before the undernoted	**4,549**	4,127	3,769	3,359
Provision for income taxes	**872**	847	786	777
Non-controlling interest in net income of subsidiaries	**98**	71	75	160
Net income	**$ 3,579**	$ 3,209	$ 2,908	$ 2,422
Preferred dividends paid and other	**30**	25	16	16
Net income available to common shareholders	**$ 3,549**	$ 3,184	$ 2,892	$ 2,406
Average number of common shares outstanding (millions):				
Basic	**988**	998	1,010	1,010
Diluted	**1,001**	1,012	1,026	1,026
Earnings per common share (in dollars):				
Basic	**$ 3.59**	$ 3.19	$ 2.87	$ 2.38
Diluted	**$ 3.55**	$ 3.15	$ 2.82	$ 2.34
Dividends per common share (in dollars)	**$ 1.50**	$ 1.32	$ 1.10	$ 0.84

(1) These financial results were prepared in accordance with Canadian GAAP, including the accounting requirements of the Superintendent of Financial Institutions, other than recording the increase in the general provision for credit losses as a direct charge to retained earnings in the fourth quarter of 1999, which was in accordance with the accounting requirements specified by the Superintendent under the Bank Act. Had the one-time increase in the general provision of $550 before tax ($314 after-tax) been recorded as a charge to the Consolidated Statement of Income, these financial results would have been as follows: provision for credit losses $1,185, net income $1,145, basic earnings per share $1.14 and diluted earnings per share $1.13.

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

2002	2001	2000	1999(1)	1998	1997	1996
$ 10,708	$ 13,049	$ 12,129	$ 10,654	$ 10,269	$ 8,082	$ 7,881
3,087	3,062	2,286	1,874	1,815	1,636	1,757
573	872	916	943	1,007	770	740
14,368	16,983	15,331	13,471	13,091	10,488	10,378
5,519	8,233	8,192	7,284	7,303	5,714	5,969
203	303	324	314	354	260	214
158	136	120	99	99	98	95
1,971	2,247	1,616	1,201	1,057	797	841
7,851	10,919	10,252	8,898	8,813	6,869	7,119
6,517	6,064	5,079	4,573	4,278	3,619	3,259
2,029	1,425	765	635	595	35	380
4,488	4,639	4,314	3,938	3,683	3,584	2,879
3,942	4,071	3,665	3,183	2,858	2,683	2,008
8,430	8,710	7,979	7,121	6,541	6,267	4,887
3,344	3,220	2,944	2,627	2,501	2,202	1,910
2,630	2,442	2,209	2,149	1,945	1,607	1,327
—	—	(34)	(20)	—	250	(20)
5,974	5,662	5,119	4,756	4,446	4,059	3,217
2,456	3,048	2,860	2,365	2,095	2,208	1,670
594	869	983	860	755	758	665
154	102	43	46	38	34	31
$ 1,708	$ 2,077	$ 1,834	$ 1,459	$ 1,302	$ 1,416	$ 974
16	16	16	16	5	1	18
$ 1,692	$ 2,061	$ 1,818	$ 1,443	$ 1,297	$ 1,415	$ 956
1,009	1,001	991	986	982	958	937
1,026	1,018	1,003	996	993	966	939
$ 1.68	$ 2.06	$ 1.83	$ 1.46	$ 1.32	$ 1.48	$ 1.02
$ 1.65	$ 2.02	$ 1.81	$ 1.45	$ 1.31	$ 1.46	$ 1.02
$ 0.73	$ 0.62	$ 0.50	$ 0.44	$ 0.40	$ 0.37	$ 0.33

SUPPLEMENTARY DATA

Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	2006	2005	2004	2003
Preferred shares				
Balance at beginning of year	**$ 600**	$ 300	$ 300	$ 300
Issued	**—**	300	—	—
Redeemed	**—**	—	—	—
Balance at end of year	**600**	600	300	300
Common shares and contributed surplus				
Balance of common shares at beginning of year	**3,316**	3,228	3,140	3,002
Issued	**135**	172	117	163
Purchased for cancellation	**(26)**	(84)	(29)	(25)
Balance of common shares at end of year	**3,425**	3,316	3,228	3,140
Contributed surplus: Fair value of stock options	**—**	1	1	1
Total	**3,425**	3,317	3,229	3,141
Retained earnings and cumulative foreign currency translation losses				
Balance at beginning of year	**12,165**	11,456	10,673	10,500
Adjustments	**(25)**(1)	—	—	—
Net income	**3,579**	3,209	2,908	2,422
Dividends: Preferred	**(30)**	(25)	(16)	(16)
Common	**(1,483)**	(1,317)	(1,110)	(849)
Net unrealized foreign exchange translation	**(360)**	(178)	(709)	(1,176)
Purchase of shares and premium on redemption	**(324)**	(973)	(290)	(201)
Other	**—**	(7)	—	(7)
Balance at end of year	**13,522**	12,165	11,456	10,673
Total shareholders' equity at end of year	**$ 17,547**	$ 16,082	$ 14,985	$ 14,114
Other statistics				
Operating performance				
Basic earnings per share ($)	**3.59**	3.19	2.87	2.38
Diluted earnings per share ($)	**3.55**	3.15	2.82	2.34
Return on equity (%)	**22.1**	20.9	19.9	17.6
Productivity ratio (%)(TEB)	**55.3**	56.3	56.9	55.9
Return on assets (%)	**1.02**	1.04	1.02	0.84
Net interest margin on total average assets (%)(TEB)	**1.95**	2.00	2.10	2.16
Capital measures				
Tier 1 capital ratio (%)	**10.2**	11.1	11.5	10.8
Total capital ratio (%)	**11.7**	13.2	13.9	13.2
Assets to capital ratio (6)	**17.1**	15.1	13.8	14.4
Common equity to risk-weighted assets (%)	**8.8**	9.7	9.9	9.2
Tangible common equity to risk-weighted assets (%)	**8.3**	9.3	9.7	8.9
Common share information				
Share price ($):				
High	**49.80**	44.22	40.00	33.70
Low	**41.55**	36.41	31.08	22.28
Close	**49.30**	42.99	39.60	32.74
Number of shares outstanding (millions)	**990**	990	1,009	1,011
Dividends per share ($)	**1.50**	1.32	1.10	0.84
Dividend payout (%) (7)	**41.8**	41.4	38.4	35.3
Dividend yield (%) (8)	**3.3**	3.3	3.1	3.0
Price to earnings multiple (9)	**13.7**	13.5	13.8	13.8
Book value per common share ($)	**17.13**	15.64	14.56	13.67
Other information				
Average total assets ($ millions)	**350,709**	309,374	283,986	288,513
Number of branches and offices	**2,191**	1,959	1,871	1,850
Number of employees (10)	**53,251**	46,631	43,928	43,986
Number of automated banking machines	**4,937**	4,449	4,219	3,918

(1) Cumulative effect of adoption of new stock-based compensation accounting standard.

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

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

(4) 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 0.50%, basic earnings per share $1.14, diluted earnings per share $1.13, dividend payout 38.0% and price earnings multiple 14.3.

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

2002	2001	2000	1999	1998	1997	1996
$ 300	$ 300	$ 300	$ 300	$ —	$ —	$ 350
—	—	—	—	300	—	—
—	—	—	—	—	—	(350)
300	300	300	300	300	—	—
2,920	2,765	2,678	2,625	2,567	2,161	1,994
101	155	87	53	58	406	167
(19)	—	—	—	—	—	—
3,002	2,920	2,765	2,678	2,625	2,567	2,161
—	—	—	—	—	—	—
3,002	2,920	2,765	2,678	2,625	2,567	2,161
9,913	8,435	6,953	6,414	5,363	4,263	3,751
(76)(2)	(39)(3)	—	(314)(4)	—	—	(116)(5)
1,708	2,077	1,834	1,459	1,302	1,416	974
(16)	(16)	(16)	(16)	(5)	(1)	(18)
(732)	(621)	(496)	(429)	(393)	(355)	(305)
(137)	79	163	(160)	152	43	(19)
(154)	—	—	—	—	—	—
(6)	(2)	(3)	(1)	(5)	(3)	(4)
10,500	9,913	8,435	6,953	6,414	5,363	4,263
$ 13,802	$ 13,133	$ 11,500	$ 9,931	$ 9,339	$ 7,930	$ 6,424
1.68	2.06	1.83	1.46(4)	1.32	1.48	1.02
1.65	2.02	1.81	1.45(4)	1.31	1.46	1.02
13.0	17.3	17.6	15.3(4)	15.3	20.2	15.8
55.7	54.6	57.3	60.1	61.2	63.4	59.9
0.58	0.76	0.77	0.64(4)	0.61	0.79	0.61
2.29	2.32	2.21	2.07	2.06	2.08	2.12
9.9	9.3	8.6	8.1	7.2	6.9	6.7
12.7	13.0	12.2	11.9	10.6	10.4	8.9
14.5	13.5	13.7	13.5	14.9	14.2	16.4
8.6	8.1	7.3	6.9	6.0	5.8	5.5
8.3	7.8	7.0	6.7	5.7	5.6	5.5
28.10	25.25	22.83	18.45	22.35	17.05	10.60
21.01	18.65	13.03	14.30	11.40	10.28	7.10
22.94	21.93	21.75	16.80	16.10	15.54	10.57
1,008	1,008	996	989	984	980	950
0.73	0.62	0.50	0.44	0.40	0.37	0.33
43.2	30.1	27.3	29.7(4)	30.3	25.1	31.9
3.0	2.8	2.8	2.7	2.4	2.7	3.7
13.7	10.6	11.9	11.5(4)	12.2	10.5	10.4
13.39	12.74	11.25	9.74	9.18	8.09	6.76
296,852	271,843	238,664	229,037	213,973	179,176	158,803
1,847	2,005	1,695	1,654	1,741	1,658	1,464
44,633	46,804	40,946	40,894	42,046	38,648	34,592
3,693	3,761	2,669	2,322	2,244	2,030	1,526

(6) 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.

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

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

(9) Based on the closing common share price.

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

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CONSOLIDATED FINANCIAL STATEMENTS

Management's Responsibility for Financial Information

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

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

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

Management, under the supervision of and the participation of the Chief Executive Officer and the Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting in line with Canadian and U.S. securities regulations.

The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic audits of all aspects of the Bank's operations. As well, the Bank's Chief Auditor has full and free access to, and meets periodically with, the Audit and Conduct Review Committee of the Board of Directors. In addition, the Bank's compliance function maintains policies, procedures and programs directed at ensuring compliance with regulatory requirements, including conflict of interest rules.

The Office of the Superintendent of Financial Institutions, Canada, which is mandated to protect the rights and interests of the depositors and creditors of the Bank, examines and enquires into the business and affairs of the Bank, as deemed necessary, to determine whether the provisions of the Bank Act are being complied with, and that the Bank is in a sound financial condition.

The Audit and Conduct Review Committee, composed entirely of outside directors, reviews the consolidated financial statements with both management and the independent auditors before such statements are approved by the Board of Directors and submitted to the shareholders of the Bank.

The Audit and Conduct Review Committee reviews and reports their findings to the Board of Directors on all related party transactions that may have a material impact on the Bank.

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

Rick Waugh
President and Chief Executive Officer

Luc Vanneste
Executive Vice-President
and Chief Financial Officer

Toronto, Canada

December 8, 2006

Shareholders' Auditors' Report

To the Shareholders of The Bank of Nova Scotia

We have audited the Consolidated Balance Sheet of The Bank of Nova Scotia (the Bank) as at October 31, 2006 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Consolidated Balance Sheet as at October 31, 2005 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the two-year period ended October 31, 2005, prepared in accordance with Canadian generally accepted accounting principles, were audited in accordance with Canadian generally accepted auditing standards by KPMG LLP and PricewaterhouseCoopers LLP, who expressed an opinion without reservation on those statements in the Shareholders' Auditors' report dated November 29, 2005.

KPMG LLP
Chartered Accountants
Toronto, Canada

December 8, 2006

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

As at October 31 ($ millions)	2006	2005
Assets		
Cash resources		
Cash and non-interest-bearing deposits with banks	**$ 2,280**	$ 2,501
Interest-bearing deposits with banks	**17,734**	15,182
Precious metals	**3,362**	2,822
	23,376	20,505
Securities (Note 3)		
Investment	**33,012**	23,452
Trading	**62,490**	50,007
	95,502	73,459
Loans (Note 4)		
Residential mortgages	**89,590**	75,520
Personal and credit cards	**39,058**	34,695
Business and government	**76,733**	62,681
Securities purchased under resale agreements	**25,705**	20,578
	231,086	193,474
Allowance for credit losses (Note 5 (b))	**2,607**	2,469
	228,479	191,005
Other		
Customers' liability under acceptances	**9,555**	7,576
Trading derivatives' market valuation (Note 23 (d))	**10,369**	11,622
Land, buildings and equipment (Note 7)	**2,256**	1,934
Goodwill (Note 8)	**873**	498
Other intangible assets (Note 8)	**294**	235
Other assets (Note 9)	**8,302**	7,191
	31,649	29,056
	$379,006	$314,025
Liabilities and shareholders' equity		
Deposits (Note 10)		
Personal	**$ 93,450**	$ 83,953
Business and government	**141,072**	109,389
Banks	**29,392**	24,103
	263,914	217,445
Other		
Acceptances	**9,555**	7,576
Obligations related to securities sold under repurchase agreements	**33,470**	26,032
Obligations related to securities sold short	**13,396**	11,250
Trading derivatives' market valuation (Note 23 (d))	**11,211**	11,193
Other liabilities (Note 11)	**26,457**	20,794
Non-controlling interest in subsidiaries	**435**	306
	94,524	77,151
Subordinated debentures (Note 12)	**2,271**	2,597
Capital instrument liabilities (Note 13)	**750**	750
Shareholders' equity		
Capital stock (Note 14)		
Preferred shares	**600**	600
Common shares and contributed surplus	**3,425**	3,317
Retained earnings	**15,843**	14,126
Cumulative foreign currency translation losses	**(2,321)**	(1,961)
	17,547	16,082
	$379,006	$314,025

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 Statement of Income

For the year ended October 31 ($ millions)	2006	2005	2004
Interest income			
Loans	**$ 12,677**	$10,053	$ 9,074
Securities	**4,124**	3,104	2,662
Deposits with banks	**881**	646	441
	17,682	13,803	12,177
Interest expense			
Deposits	**8,589**	5,755	4,790
Subordinated debentures	**130**	134	112
Capital instrument liabilities	**53**	53	164
Other	**2,502**	1,990	1,410
	11,274	7,932	6,476
Net interest income	**6,408**	5,871	5,701
Provision for credit losses (Note 5 (b))	**216**	230	390
Net interest income after provision for credit losses	**6,192**	5,641	5,311
Other income			
Card revenues	**307**	251	231
Deposit and payment services	**766**	701	646
Mutual funds	**241**	193	171
Investment management, brokerage and trust services	**666**	600	504
Credit fees	**530**	542	583
Trading revenues	**637**	594	476
Investment banking	**659**	680	648
Net gain on investment securities (Note 3 (c))	**371**	414	477
Securitization revenues	**43**	79	111
Other	**580**	475	473
	4,800	4,529	4,320
Net interest and other income	**10,992**	10,170	9,631
Non-interest expenses			
Salaries and employee benefits(1)	**3,768**	3,488	3,452
Premises and technology	**1,214**	1,148	1,139
Communications	**276**	255	248
Advertising and business development	**232**	232	210
Professional	**174**	186	163
Business and capital taxes	**133**	147	142
Other	**646**	587	508
	6,443	6,043	5,862
Income before the undernoted	**4,549**	4,127	3,769
Provision for income taxes (Note 16)	**872**	847	786
Non-controlling interest in net income of subsidiaries	**98**	71	75
Net income	**$ 3,579**	$ 3,209	$ 2,908
Preferred dividends paid	**30**	25	16
Net income available to common shareholders	**$ 3,549**	$ 3,184	$ 2,892
Average number of common shares outstanding (millions) (Note 18):			
Basic	**988**	998	1,010
Diluted	**1,001**	1,012	1,026
Earnings per common share (in dollars)(2)(Note 18):			
Basic	**$ 3.59**	$ 3.19	$ 2.87
Diluted	**$ 3.55**	$ 3.15	$ 2.82
Dividends per common share (in dollars)	**$ 1.50**	$ 1.32	$ 1.10

(1) Refer to Note 1 for impact of adopting a new accounting policy related to stock-based compensation for employees eligible to retire before the vesting date.

(2) The calculation of earnings per share is based on full dollar and share amounts.

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	2006	2005	2004
Preferred shares (Note 14)			
Balance at beginning of year	**$ 600**	$ 300	$ 300
Issued	**–**	300	–
Balance at end of year	**600**	600	300
Common shares and contributed surplus			
Common shares (Note 14):			
Balance at beginning of year	**3,316**	3,228	3,140
Issued	**135**	172	117
Purchased for cancellation	**(26)**	(84)	(29)
Balance at end of year	**3,425**	3,316	3,228
Contributed surplus: Fair value of stock options (Note 15)	**–**	1	1
Total	**3,425**	3,317	3,229
Retained earnings			
Balance at beginning of year	**14,126**	13,239	11,747
Cumulative effect of adopting new accounting policy (1)	**(25)**	–	–
	14,101	13,239	11,747
Net income	**3,579**	3,209	2,908
Dividends: Preferred	**(30)**	(25)	(16)
Common	**(1,483)**	(1,317)	(1,110)
Purchase of shares	**(324)**	(973)	(290)
Other	**–**	(7)	–
Balance at end of year	**15,843**	14,126	13,239
Cumulative foreign currency translation losses			
Balance at beginning of year	**(1,961)**	(1,783)	(1,074)
Net unrealized foreign exchange translation (2)	**(360)**	(178)	(709)
Balance at end of year	**(2,321)**	(1,961)	(1,783)
Total shareholders' equity at end of year	**$ 17,547**	$16,082	$14,985

(1) Represents the cumulative effect of adopting a new accounting policy related to stock-based compensation for employees eligible to retire before the vesting date [refer to Note 1, Stock-based compensation].

(2) Comprises unrealized foreign exchange translation losses on net investments in self-sustaining foreign operations of $(564) (2005 – $(416); 2004 – $(1,085)) and gains from related foreign exchange hedging activities of $204 (2005 – $238; 2004 – $376).

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

Consolidated Statement of Cash Flows

Sources (uses) of cash flows For the year ended October 31 ($ millions)	**2006**	2005	2004
Cash flows from operating activities			
Net income	**$ 3,579**	$ 3,209	$ 2,908
Adjustments to net income to determine cash flows:			
Depreciation and amortization	**230**	202	216
Provision for credit losses	**216**	230	390
Future income taxes	**(178)**	(231)	(87)
Net gain on investment securities	**(371)**	(414)	(477)
Net accrued interest receivable and payable	**79**	(204)	(103)
Trading securities	**(13,042)**	(7,014)	(1,514)
Trading derivatives' market valuation, net	**1,305**	(400)	350
Other, net	**2,218**	1,300	(718)
	(5,964)	(3,322)	965
Cash flows from financing activities			
Deposits	**44,014**	22,282	8,106
Obligations related to securities sold under repurchase agreements	**8,245**	6,676	(8,011)
Obligations related to securities sold short	**2,190**	3,693	(1,528)
Subordinated debentures redemptions/repayments	**(300)**	—	—
Capital instrument liabilities redemptions/repayments	**—**	—	(260)
Capital stock issued	**118**	416	114
Capital stock redeemed/purchased for cancellation	**(350)**	(1,057)	(319)
Cash dividends paid	**(1,513)**	(1,342)	(1,126)
Other, net	**684**	806	(230)
	53,088	31,474	(3,254)
Cash flows from investing activities			
Interest-bearing deposits with banks	**(1,664)**	(2,814)	3,483
Loans, excluding securitizations	**(37,611)**	(23,910)	(7,998)
Loan securitizations	**2,514**	2,153	3,514
Investment securities:			
Purchases	**(41,326)**	(26,200)	(24,471)
Maturities	**18,011**	12,955	14,742
Sales	**15,146**	10,724	14,384
Land, buildings and equipment, net of disposals	**(256)**	(168)	(228)
Other, net(1)	**(2,099)**	(276)	(59)
	(47,285)	(27,536)	3,367
Effect of exchange rate changes on cash and cash equivalents	**(60)**	(36)	(54)
Net change in cash and cash equivalents	**(221)**	580	1,024
Cash and cash equivalents at beginning of year	**2,501**	1,921	897
Cash and cash equivalents at end of year (2)	**$ 2,280**	$ 2,501	$ 1,921
Cash disbursements made for:			
Interest	**$ 10,559**	$ 8,142	$ 6,581
Income taxes	**$ 1,012**	$ 907	$ 751

(1) Comprises investments in subsidiaries and business units, and the purchase of assets related to these investments, which are net of non-cash consideration consisting of common shares issued from treasury of $1 (2005 – $49; 2004 – nil) and net of cash and cash equivalents at the date of acquisition of $167 (2005 – $17; 2004 – nil).

(2) Represents cash and non-interest-bearing deposits with banks.

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

Notes to the Consolidated Financial Statements

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1. Significant accounting policies

The consolidated financial statements of The Bank of Nova Scotia (the Bank) have been prepared in accordance with Section 308 of the Bank Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting policies conform, in all material respects, to Canadian GAAP. In addition, Note 25 describes and reconciles the significant measurement differences between Canadian and U.S. GAAP affecting the accompanying consolidated financial statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Key areas where management has made difficult, complex or subjective judgements, often as a result of matters that are inherently uncertain, include those relating to the allowance for credit losses, the fair value of financial instruments, corporate income taxes, pensions and other employee future benefits, other-than-temporary impairment of investment securities and determination of the primary beneficiary of a variable interest entity (VIE). Actual results could differ from these and other estimates.

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

Effective November 1, 2004, the Bank adopted a new accounting guideline issued by the Canadian Institute of Chartered Accountants (CICA), which requires consolidation of variable interest entities (VIEs) by the primary beneficiary. The adoption of this accounting guideline did not have a material impact on the Bank's consolidated financial statements [refer to Note 6 for certain disclosures with respect to VIEs]. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both. The VIE guideline also exempts certain entities from its scope.

Investments in VIEs where the Bank has significant influence, but where the Bank is not the primary beneficiary, are accounted for using the equity method.

Translation of foreign currencies

Foreign currency monetary assets and liabilities of the Bank's integrated foreign operations and all foreign currency denominated assets and liabilities of its self-sustaining foreign operations are translated into Canadian dollars at rates prevailing at the end of the financial period. Foreign currency non-monetary assets and liabilities of the Bank's integrated foreign operations are translated into Canadian dollars at historical rates.

Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining 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 gains/losses 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 gains/losses 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 over the period to maturity to interest income – securities in the Consolidated Statement of Income. 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 non-

interest expenses – salaries and employee benefits in the Consolidated Statement of Income.

CONSOLIDATED FINANCIAL STATEMENTS

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.

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 meeting specified criteria are considered to be held for sale and are recorded at fair value less costs to sell. If the specified criteria are not met, the asset is considered to be held for use, measured initially at fair value and accounted for in the same manner as a similar asset acquired in the normal course of business.

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.

Allowance for credit losses

The Bank maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all incurred credit-related losses in its portfolio of the following on-and off-balance sheet items: deposits with banks, securities purchased under resale agreements, loans, acceptances and other indirect credit commitments, such as letters of credit and guarantees. The allowance for credit losses consists of specific allowances and a general allowance which are reviewed on a regular basis. Full or partial write-offs of loans are generally recorded when management believes there is no realistic prospect of full recovery. Actual write-offs, net of recoveries, are deducted from the allowance for credit losses.

Specific allowances

Specific allowances, except those relating to credit card loans, residential mortgages and most personal loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the provision for credit losses in the Consolidated Statement of Income. Specific allowances for credit card loans, residential mortgages and most personal loans are calculated using a formula method taking into account recent loss experience. The allowance for credit losses against on-balance sheet items is reflected as a reduction of the related asset category, and allowances relating to off-balance sheet items are included in other liabilities in the Consolidated Balance Sheet.

General allowance

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

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

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

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

While the total general allowance is established through a step-by-step process that considers risk arising from specific segments of the portfolio, the resulting total general allowance is available to

absorb all incurred losses in the loan portfolio for which there has been no specific provision.

The general allowance for credit losses is recorded as a reduction of loans in the Consolidated Balance Sheet.

Sales of loans

Transfers of loans to unrelated parties are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. If these criteria are not satisfied, then the transfers are treated as financing transactions. If treated as sales, the loans are removed from the Consolidated Balance Sheet and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. The fair values of loans sold, retained interests and recourse liabilities are determined using either quoted market prices, pricing models which take into account management's best estimates of key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved, or sales of similar assets. Where the Bank continues to service the loans sold, a servicing liability or asset is recognized and amortized over the servicing period as servicing fees.

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the Bank would not recover substantially all of its recorded investment are classified in 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.

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

Acceptances

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

Land, buildings and equipment

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

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

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

Goodwill and other intangible assets

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

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

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

Capital instrument liabilities

Capital instruments that must or can be settled by issuing a variable number of the issuer's own equity instruments are required to be presented as liabilities rather than as equity. These instruments are classified as either deposit liabilities or capital instrument liabilities in the Consolidated Balance Sheet, with the disbursements recorded in interest expense.

Corporate income taxes

The Bank follows the asset and liability method of accounting for corporate income taxes. Under this method, future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities, and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period in which the tax change was enacted or substantively enacted.

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

Derivative instruments

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

The Bank enters into these derivative contracts for trading purposes, as well as to manage its exposures, mainly to currency and interest rate fluctuations, as part of the Bank's asset/liability management. Trading activities are undertaken to meet the needs of

the Bank's customers, as well as for the Bank's own account to generate trading income.

Trading derivatives are carried at their fair values [refer to Note 23(d)]. The determination of the fair value of trading derivatives includes consideration, on a portfolio basis, of customer credit risk and ongoing direct costs over the life of the instruments. The 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.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking 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 the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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 in 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.

Employee future benefits

The Bank provides pension and other future benefit plans for qualified employees in Canada, the United States and other international operations. Pension benefits are generally based on an employee's length of service and the final five years' average salary. Other future benefits provided include post-retirement health care, dental care and life insurance, along with post-employment benefits and compensated absences.

The cost of these employee future benefits is actuarially determined each year using the projected benefit method prorated on service. The calculation uses management's best estimate of a number of assumptions – including the long-term rates of investment return on plan assets, future compensation, health care costs, mortality, as well as the retirement age of employees. The discount rate is based on market conditions as at the calculation date. The expected return on plan assets is generally based on a market-related value of plan assets, where gains or losses on equity investments are recognized over three years; fixed income investments are recognized at market value. The Bank's main pension plan uses a measurement date of August 31, while the other principal employee future benefit plans use a July 31 date.

Past service costs, from plan amendments that impact previously earned employee benefits, are amortized on a straight-line basis over the estimated average remaining period to full benefit eligibility for active employees. For the Bank's principal pension plans, these periods range from 11 to 22 years. For principal other benefit plans, these periods range from 11 to 27 years. If the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of the year, the excess above this 10% threshold is generally amortized over the estimated average remaining service period of employees. For the Bank's principal pension plans and principal other benefit plans, these periods range from 11 to 22 years and from 11 to 27 years, respectively. A pension valuation allowance is recognized if the prepaid benefit expense (the cumulative difference between pension income/expense and funding contributions) is more than the Bank's expected future benefit.

The cumulative difference between pension income/expense and funding contributions is included in other assets and other liabilities, as appropriate, in the Consolidated Balance Sheet. The difference between other future benefits expense and payments to qualified plan members is included in other assets and other liabilities in the Consolidated Balance Sheet.

Effective in fiscal 2006, new employees in Mexico and the U.K. participate in a defined contribution pension plan. The costs for such plans are equal to Bank contributions made to employees' accounts during the year.

Stock-based compensation

The Bank has stock option plans and other stock-based compensation plans for certain eligible employees and non-officer directors that are described more fully in Note 15.

Employee stock options granted after November 1, 2002, have Tandem Stock Appreciation Rights (Tandem SARs), which provide the employee the choice to either exercise the stock option for shares, or to exercise the Tandem SAR and thereby receive the intrinsic value of the stock option in cash. Options with Tandem SARs are awards that may call for settlement in cash and, therefore, are recorded in other liabilities in the Consolidated Balance Sheet. Changes in this liability which arise from fluctuations in the market price of the Bank's common shares are recorded in salaries and employee benefits expense in the Consolidated Statement of Income on a graded vesting basis. If an employee chooses to exercise the option, thereby cancelling the Tandem SAR, both the exercise price and the accrued liability are credited to common shares in the Consolidated Balance Sheet.

The Bank's other stock-based compensation plans are accounted for in the same manner as stock options with Tandem SAR features. The stock-based compensation expense is recognized evenly over an applicable vesting period [refer to Change in accounting policy on page 99].

Stock options granted after November 1, 2002, to non-officer directors do not have Tandem SAR features. These are expensed using a fair-value-based method (Black-Scholes pricing model) and recorded in other non-interest expenses in the Consolidated Statement of Income with a corresponding credit to contributed surplus in the

Consolidated Balance Sheet.

For stock options granted prior to November 1, 2002, the Bank accounts for these options using the intrinsic method. Under this method, the Bank does not recognize any compensation expense, since the exercise price was set at an amount equal to the closing price on the day prior to the grant of the stock options. When these stock options are exercised, the proceeds received by the Bank are credited to common shares in the Consolidated Balance Sheet.

Change in accounting policy

In July 2006, the Emerging Issues Committee of the CICA issued a new Abstract that deals with the accounting for stock-based compensation for employees eligible to retire before the vesting date. The accounting treatment specified by the Abstract is required to be adopted in the financial statements issued for interim and annual periods ending on or after December 31, 2006, although early adoption is encouraged. This Abstract requires that: i) compensation costs attributable to stock-based compensation awards granted to employees who are eligible to retire on the grant date be fully recognized on the grant date; and ii) compensation costs attributable to stock-based compensation awards granted to employees who will become eligible to retire during the vesting period be recognized over the timeframe between the grant date and the date of retirement eligibility. Previously, these costs were recognized by the Bank over the vesting period of the award.

During the third quarter of fiscal 2006, the Bank early adopted the provisions of this new Abstract and recorded an adjustment of $25 million (net of income taxes of $13 million) to opening fiscal 2006 retained earnings for the cumulative effect on prior years arising from this change in accounting policy. The Bank has not restated net income of any prior period as a result of adopting this accounting change as the Bank has concluded that such an impact is not material to any particular period. The fiscal 2006 income statement effect of adopting this change in policy was an increase in net income of $6 million (net of a provision for income taxes of $3 million).

2. Future accounting changes

The following summarizes future accounting policy changes that will be relevant to the Bank's consolidated financial statements subsequent to October 31, 2006.

Financial instruments

The CICA has issued three new standards: Financial Instruments –Recognition and Measurement, Hedges and Comprehensive Income. These will be effective for the Bank on November 1, 2006, and require the following:

Financial Instruments – Recognition and Measurement

All financial assets and liabilities will be carried at fair value in the Consolidated Balance Sheet, except the following, which will be carried at amortized cost unless designated as held for trading upon initial recognition: loans and receivables, certain securities and non-trading financial liabilities. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the Consolidated Statement of Income. Unrealized gains and losses on financial assets that are held as available for sale will be recorded in other comprehensive income until realized, when they will be recorded in the Consolidated Statement of Income. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value in the Consolidated Balance Sheet.

Hedges

In a fair value hedge, the change in fair value of the hedging derivative will be offset in the Consolidated Statement of Income against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative, to the extent effective, will be recorded in other comprehensive income until the asset or liability being hedged affects the Consolidated Statement of Income, at which time the related change in fair value of the derivative will also be recorded in the Consolidated Statement of Income. Any hedge ineffectiveness will be recorded in the Consolidated Statement of Income.

Comprehensive Income

Unrealized gains and losses on financial assets that will be held as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments, will be recorded in a Statement of Other Comprehensive Income until recognized in the Consolidated Statement of Income. Other comprehensive income will form part of shareholders' equity.

Transitional Impacts

The transitional impact of these new standards is still being evaluated as certain transitional provision guidance was not clarified by the accounting standards setters on a timely basis in order to allow the Bank to finalize the impact as at November 1, 2006. The impact of recording investment securities as available-for-sale assets at fair value on November 1, 2006 will be to increase securities by approximately $1,091 million and increase accumulated other comprehensive income by approximately $706 million (after-tax).

CONSOLIDATED FINANCIAL STATEMENTS

3. Securities

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

As at October 31 ($ millions)	Remaining term to maturity: Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	**2006 Carrying value**	2005 Carrying value
Investment securities:							
Canadian federal government debt(1)	$ 988	$ 143	$ 2,376	$ 19	$ –	**$ 3,526**	$ 3,134
Canadian provincial and municipal debt	692	25	17	–	–	**734**	397
U.S. treasury and other U.S. agencies' debt	80	147	2,162	700	–	**3,089**	3,029
Other foreign governments' debt	964	462	1,196	1,852	–	**4,474**	4,572
Bonds of designated emerging markets	25	–	66	439	–	**530**	592
Other debt	342	1,000	12,783	3,791	–	**17,916**	8,969
Preferred shares	–	3	–	–	608(2)	**611**	682
Common shares	–	–	–	–	1,990	**1,990**	1,910
Associated corporations	–	–	–	–	142(3)	**142**	167
Total	3,091	1,780	18,600	6,801	2,740	**33,012**	23,452
Trading securities (4) :							
Canadian federal government debt	2,017	6,260	2,523	3,694	–	**14,494**	5,845
Canadian provincial and municipal debt	267	204	953	2,838	–	**4,262**	4,578
U.S. treasury and other U.S. agencies' debt	100	88	988	1,004	–	**2,180**	847
Other foreign governments' debt	557	963	1,598	510	–	**3,628**	5,805
Common shares	–	–	–	–	29,053	**29,053**	25,494
Other	2,622	1,224	2,708	2,119	200	**8,873**	7,438
Total	5,563	8,739	8,770	10,165	29,253	**62,490**	50,007
Total securities	$ 8,654	$ 10,519	$27,370	$16,966	$31,993	**$95,502**	$73,459
Total by currency (in Canadian equivalent):							
Canadian dollar	$ 5,775	$ 7,510	$ 7,415	$ 7,745	$27,351	**$55,796**	$41,334
U.S. dollar	637	1,305	16,858	7,235	4,355	**30,390**	20,445
Mexican peso	1,197	928	1,752	590	100	**4,567**	6,905
Other currencies	1,045	776	1,345	1,396	187	**4,749**	4,775
Total securities	$ 8,654	$ 10,519	$27,370	$16,966	$31,993	**$95,502**	$73,459

(1) Includes securities retained by the Bank in connection with its mortgage securitizations. The outstanding balance of these mortgage-backed securities is $2,116 (2005 – $1,214) [refer to Note 4 (b)].

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

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

(4) Trading securities are carried at market value.

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

As at October 31 ($ millions)	**2006 Carrying value**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated market value**	2005 Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Canadian federal government debt	**$ 3,526**	**$ 4**	**$ 66**	**$ 3,464**	$ 3,134	$ 10	$ 18	$ 3,126
Canadian provincial and municipal debt	**734**	**–**	**–**	**734**	397	–	–	397
U.S. treasury and other U.S. agencies' debt	**3,089**	**5**	**36**	**3,058**	3,029	–	50	2,979
Other foreign governments' debt	**4,474**	**376**	**34**	**4,816**	4,572	411	14	4,969
Bonds of designated emerging markets	**530**	**316**	**–**	**846**	592	286	–	878
Other debt	**17,916**	**39**	**34**	**17,921**	8,969	48	20	8,997
Preferred shares	**611**	**18**	**7**	**622**	682	21	9	694

Common shares	**1,990**	**528**	**18**	**2,500**	1,910	528	34	2,404
Associated corporations	**142**	**–**	**–**	**142**	167	–	–	167
Total investment securities	**$ 33,012**	**$ 1,286**	**$ 195**	**$ 34,103**	$ 23,452	$ 1,304	$ 145	$ 24,611

The net unrealized gain on investment securities of $1,091 million (2005 – $1,159 million) decreases to a net unrealized gain of $1,001 million (2005 – $1,035 million) after the net fair value of derivative instruments and other hedge amounts associated with these securities is taken into account.

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

For the year ended October 31 ($ millions)	2006	2005	2004
Realized gains	**$ 476**	$ 599	$ 691
Realized losses and impairment writedowns	**105**	185	214
Net gain on investment securities	**$ 371**	$ 414	$ 477

(d) The following table presents the current fair value of investment securities with continuous unrealized losses for periods less than 12 months, or 12 months or longer:

	Investment securities with continuous unrealized losses as at October 31, 2006								
	Less Than 12 Months			12 Months or Greater			Total		
($ millions)	Carrying Value	Fair Value	Unrealized Losses	Carrying Value	Fair Value	Unrealized Losses	Carrying Value	Fair Value	Unrealized Losses
Canadian federal government debt	$ 3,245	$3,179	$ 66	$ –	$ –	$ –	$ 3,245	$3,179	$ 66
Canadian provincial and municipal debt	692	692	–	16	16	–	708	708	–
U.S. treasury and other U.S. agencies' debt	1,121	1,100	21	1,390	1,375	15	2,511	2,475	36
Other foreign governments' debt	1,247	1,216	31	94	91	3	1,341	1,307	34
Bonds of designated emerging markets	4	4	–	–	–	–	4	4	–
Other debt	1,418	1,398	20	618	604	14	2,036	2,002	34
Preferred shares	150	145	5	45	43	2	195	188	7
Common shares	92	85	7	39	28	11	131	113	18
Total	$ 7,969	$7,819	$ 150	$ 2,202	$2,157	$ 45	$10,171	$9,976	$ 195

As at October 31, 2006, the carrying value of 417 investment securities exceeded their fair value by $195 million. Of the 417 securities, 140 have been in an unrealized loss position continuously for more than a year, amounting to an unrealized loss of $45 million. The unrealized losses on the debt instruments arose primarily from an increase in interest rates. For equity investments, unrealized losses are primarily the result of the timing of the market prices or investment-specific business environment factors. Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature.

The Bank conducts a quarterly review to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its fair value falls below its cost, and a writedown to net realizable value is recorded when the decline is considered other-than-temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

4. Loans

(a) Loans outstanding

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

As at October 31 ($ millions)	2006	2005
Canada:		
Residential mortgages	**$ 81,908**	$ 69,431
Personal and credit cards	**32,653**	30,122
Business and government	**26,044**	24,843
Securities purchased under resale agreements	**17,436**	11,683
	158,041	136,079
United States:		
Business, government and other	**14,756**	9,494
Securities purchased under resale agreements	**3,980**	6,052
	18,736	15,546
Mexico:		
Residential mortgages	**2,212**	1,704
Personal and credit cards	**1,912**	1,423
Business and government	**5,955**	6,450
Securities purchased under resale agreements	**3,426**	1,858
	13,505	11,435
Other International:		
Residential mortgages	**5,470**	4,357
Personal and credit cards	**4,493**	3,110
Business and government	**29,978**	21,961
Securities purchased under resale agreements	**863**	986

	40,804	30,414
	231,086	193,474
Less: allowance for credit losses	**2,607**	2,469
Total(2)	**$228,479**	$191,005

(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 $46,209 (2005 – $35,560), loans denominated in Mexican pesos amount to $11,151 (2005- $8,897) and loans denominated in other foreign currencies amount to $16,540 (2005 – $13,569).

(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, excluding issue costs, is recognized in other income – securitization revenues in the Consolidated Statement of Income. The key weighted-average assumptions used to measure fair value at the dates of securitization were a prepayment rate of 16.0% (2005 – 15.2%; 2004 – 15.6%), an excess spread of 0.9% (2005 – 1.2%; 2004 – 1.2%), and a discount rate of 4.3% (2005 – 3.8%; 2004 – 4.2%). 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)	**2006**	2005	2004
Net cash proceeds(1)	**$ 2,514**	$ 2,153	$ 3,514
Retained interest	**67**	66	106
Retained servicing liability	**(18)**	(14)	(23)
	2,563	2,205	3,597
Residential mortgages securitized	**2,551**	2,161	3,537
Net gain on sale	**$ 12**	$ 44	$ 60

(1) Excludes insured mortgages which were securitized and retained by the Bank of $1,206 (2005 – $1,452; 2004 – nil). These assets are classified as investment securities and have an outstanding balance of $2,116 (2005 – $1,214; 2004 – nil) [refer to Note 3].

The key assumptions used in measuring the fair value of the retained interests for mortgages securitized and the sensitivity of the current fair value of retained interests to a 10% and 20% adverse change to these assumptions are as follows:

As at October 31 ($ millions)	**2006**	2005
Fair value of the retained interest ($)	**240**	216
Weighted average life (in years)	**3**	3
Prepayment rate (%)	**14.4**	14.8
Impact on fair value of a 10% adverse change ($)	**(11)**	(5)
Impact on fair value of a 20% adverse change ($)	**(18)**	(9)
Residual cash flow annual discount rate (%)	**3.9-4.3**	3.3-4.2
Impact on fair value of a 10% adverse change ($)	**(7)**	(1)
Impact on fair value of a 20% adverse change ($)	**(9)**	(3)
Excess spread (%)	**1.0**	1.2
Impact on fair value of a 10% adverse change ($)	**(26)**	(20)
Impact on fair value of a 20% adverse change ($)	**(50)**	(39)

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

Information on total securitized loan assets (1) is summarized as follows:

	2006(2)			2005			2004		
($ 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	**$ 11,913**	**$ 7**	**$ –**	$ 7,801	$ –	$ –	$ 7,523	$ –	$ –
Personal and credit cards	**170**	**1**	**1**	809	4	2	1,319	5	5
Total	**$ 12,083**	**$ 8**	**$ 1**	$ 8,610	$ 4	$ 2	$ 8,842	$ 5	$ 5

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

(2) The 2006 amounts include balances of mortgages securitized by Maple Trust Company and the Canadian branch of Maple Financial Group Inc., prior to the Bank acquiring the Canadian mortgage operations of Maple Financial Group Inc., including Maple Trust Company, in 2006.

5. Impaired loans and allowance for credit losses

(a) Impaired loans

As at October 31 ($ millions)	Gross[1]	Specific allowance[2]	2006 Net	2005 Net
By loan type:				
Residential mortgages	$ 316	$ 138	**$ 178**	$ 158
Personal and credit cards	469	456	**13**	10
Business and government	1,085	706	**379**	513
Total	$ 1,870[3][4]	$ 1,300	**$ 570**	$ 681
By geography:				
Canada			**$ 247**	$ 188
United States			**45**	249
Other International			**278**	244
Total			**$ 570**	$ 681

(1) Gross impaired loans denominated in U.S. dollars amount to $607 (2005 – $612) and those denominated in other foreign currencies amount to $608 (2005 – $674).

(2) The specific allowance for impaired loans evaluated on an individual basis amounts to $710 (2005 – $681).

(3) Impaired loans without an allowance for credit losses against individual loans totalled $139 (2005 – $151).

(4) Average balance of gross impaired loans totalled $1,850 (2005 – $1,939).

(b) Allowance for credit losses

As at October 31 ($ millions)	Specific allowance	General allowance	2006	2005	2004
Balance at beginning of year	$ 1,145	$ 1,330	**$ 2,475**	$ 2,704	$ 3,580
Presented with securities[1]	–	–	**–**	–	(363)
Write-offs[2]	(543)	–	**(543)**	(650)	(982)
Recoveries	181	–	**181**	205	158
Provision for (reversal of) credit losses	276	(60)	**216**	230	390
Other, including foreign currency adjustment[3]	252	37	**289**	(14)	(79)
Balance at end of year[4]	$ 1,311	$ 1,307	**$ 2,618**	$ 2,475	$ 2,704

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

(2) Write-offs of loans restructured during the year were nil (2005 – $18; 2004 – $10).

(3) Includes $323 in specific allowance and $37 in general allowance related to acquisitions in 2006, and $59 in specific allowance from acquisitions in 2005.

(4) As at October 31, 2006, $11 (2005 – $6; 2004 – $8) has been recorded in other liabilities.

6. Variable interest entities

The following table provides information about VIEs that the Bank consolidated and other VIEs in which the Bank has a significant variable interest but is not the primary beneficiary. A significant variable interest is considered to exist where the Bank absorbs or receives between 10% and 50% of the VIE's expected losses, expected residual returns, or both.

Consolidated VIEs[a][b] :

As at October 31 ($ millions)	2006 Total assets	2005 Total assets
Multi-seller conduits that the Bank administers[c]	**$ 7,546**	$ 4,722
Funding vehicles[d]	**4,761**	824
Other[e]	**973**	750

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

As at October 31 ($ millions)	2006 Total assets	2006 Maximum exposure to loss[f]	2005 Total assets	2005 Maximum exposure to loss[f]
Multi-seller conduits that the Bank administers[c]	**$ 6,338**	**$ 7,377**	$ 4,085	$ 4,712
Funding vehicles[d]	**2,365**	**–**	1,608	–
Structured finance entities[e]	**3,591**	**2,048**	2,076	1,239
Collateralized debt obligation entities[g]	**1,313**	**371**	1,404	375
Other	**1,003**	**180**	486	91

(a) Effective November 1, 2004, the Bank adopted an accounting guideline, which requires prospective consolidation of VIEs by the primary beneficiary [refer to Note 1]. The adoption of this accounting guideline did not have a material impact on the Bank's consolidated financial statements. As a result of the adoption of this guideline, investment securities, and personal and credit card loans increased by $5 billion and $3 billion, respectively.

(b) The assets supporting the obligations of these consolidated VIEs as at October 31, 2006 are as follows: cash and non-interest- bearing deposits with banks of $240 million (2005 – $128 million); residential mortgage loans of $4,710 million (2005 – $763 million); investment and trading securities of $8,240 million (2005 – $5,309 million); and other assets of $90 million (2005 – $96 million). In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of those VIEs

and do not have recourse to the Bank except where the Bank has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

(c) The Bank administers multi-seller commercial paper conduit programs, which involve the purchase of assets by conduit vehicles from outside parties funded by the issuance of asset-backed commercial paper. The sellers continue to service the assets and absorb first losses for their portion of the programs. The Bank has no rights to these assets as they are available to support the obligations of the respective programs, but manages for a fee the commercial paper selling programs. As well, in some instances the Bank is counterparty to derivative contracts with these conduit programs and provides them with a large portion of their backstop liquidity and partial credit enhancement facilities. As at October 31, 2006, the conduit programs had commitments of $4,595 million (2005 – $4,243 million) to purchase securities in the future.

(d) The Bank uses special purpose entities to facilitate cost-efficient financing of its own operations. Activities of these entities are generally limited to holding a pool of assets or receivables from the Bank used to finance distributions to their investors. Prior to the adoption of this accounting guideline in fiscal 2005, the Bank consolidated all of these funding vehicles.

(e) This includes special purpose entities used to assist corporate clients in accessing cost-efficient financing. Generally, both the Bank and the client invest in such entities with the proceeds used to make loans to corporations affiliated with the client.

(f) The Bank's maximum exposure to loss represents the notional amounts of guarantees, liquidity facilities, and other credit support relationships with the VIE, the credit risk amount for certain derivative contracts with the entities, and the amount invested where the Bank holds an ownership interest in the VIE. The Bank has recorded $2,521 million (2005 – $1,669 million) of this exposure, primarily its ownership interest in the VIEs, on its Consolidated Balance Sheet as at October 31, 2006.

(g) The Bank holds an interest in VIEs structured to match specific investor requirements. Loans or credit derivatives are held by the VIEs to create security offerings for investors that match their investment needs and preferences.

7. Land, buildings and equipment

As at October 31 ($ millions)	Cost	Accumulated depreciation & amortization	**2006 Net book value**	2005 Net book value
Land	$ 349	$ –	**$ 349**	$ 247
Buildings	1,685	575	**1,110**	1,017
Equipment and computer software	2,749	2,183	**566**	477
Leasehold improvements	769	538	**231**	193
Total	$ 5,552	$ 3,296	**$ 2,256**	$ 1,934

Depreciation and amortization in respect of the above buildings, equipment and computer software, and leasehold improvements for the year amounted to $192 million (2005 – $173 million; 2004 – $189 million).

8. Goodwill and other intangible assets

Goodwill

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

As at October 31 ($ millions)	Domestic Banking	International Banking	Scotia Capital	**2006**	2005	2004
Balance at beginning of year	$ 115	$ 288	$ 95	**$ 498**	$ 261	$ 270
Acquisitions	145	235	10	**390**	227	–
Effects of foreign exchange and other	–	(11)	(4)	**(15)**	10	(9)
Balance at end of year	$ 260	$ 512	$ 101	**$ 873**	$ 498	$ 261

Intangible assets

As at October 31 ($ millions)	Gross carrying amount	Accumulated amortization	**2006 Net**	2005 Net	2004 Net
Intangible assets	$ 517	$ 223	**$ 294**	$ 235	$ 240

Intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense for the year ended October 31, 2006, was $38 million (2005 – $29 million; 2004 – $27 million).

9. Other assets

As at October 31 ($ millions)	2006	2005
Accrued interest	**$ 2,277**	$ 1,561
Accounts receivable	**1,098**	1,016
Future income tax assets (Note 16)	**1,626**	1,295
Other	**3,301**	3,319
Total	**$ 8,302**	$ 7,191

10. Deposits

As at October 31 ($ millions)	Payable on demand: Interest-bearing	Payable on demand: Non-interest-bearing	Payable after notice	Payable on a fixed date	2006	2005
Personal	$ 1,754	$ 1,397	$ 31,854	$ 58,445	**$ 93,450**	$ 83,953
Business and government (1)	16,859	8,215	13,266	102,732	**141,072**	109,389
Banks	147	250	842	28,153	**29,392**	24,103
Total	18,760	9,862	45,962	189,330	**263,914**	217,445
Recorded in:						
Canada					**175,199**	154,297
United States					**22,159**	9,778
Mexico					**9,932**	9,478
Other International					**56,624**	43,892
Total(2)					**$263,914**	$217,445

(1) Includes deposit notes issued by the Bank to Scotiabank Capital Trust of $2,250 (2005 – $1,500) [refer to Note 13].

(2) Deposits denominated in U.S. dollars amount to $74,660 (2005 – $51,220), deposits denominated in Mexican pesos amount to $9,259 (2005-$8,848) and deposits denominated in other foreign currencies amount to $30,707 (2005 – $24,247).

11. Other liabilities

As at October 31 ($ millions)	2006	2005
Accrued interest	**$ 2,667**	$ 1,876
Accounts payable and accrued expenses	**4,108**	3,353
Deferred income	**353**	322
Other liabilities of subsidiaries and VIEs (1)	**9,498**	5,969
Gold and silver certificates	**3,434**	2,711
Future income tax liabilities (Note 16)	**148**	62
Other	**6,249**	6,501
Total	**$ 26,457**	$20,794

(1) Excludes deposits and capital instrument liabilities.

12. Subordinated debentures

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

As at October 31 ($ millions)

Maturity date	Interest rate (%)	Terms[1] (currency in millions)	2006	2005
September 2008	6.25	US $250	**$ 281**	$ 295
February 2011	7.40	Redeemed on February 8, 2006	—	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	8.30	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	8.90	Redeemable at any time	**250**	250
August 2085	Floating	US $214 bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%. Redeemable on any interest payment date	**240**	252
			$2,271	$2,597

The aggregate maturities of the debentures are as follows ($ millions):	
Less than 3 years	$ 281
From 3 to 5 years	—
From 5 to 10 years	1,500
Over 10 years	490
	$2,271

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

13. Capital instrument liabilities

Capital instrument liabilities are financial instruments, which can be settled at the Bank's option by issuing a variable number of the Bank's own equity instruments. These instruments, including the securities issued by Scotiabank Capital Trust, remain eligible as Tier 1 Capital for regulatory purposes. Scotiabank Capital Trust is a VIE and is not consolidated on the Bank's balance sheet as the Bank is not the primary beneficiary. Therefore, the Scotiabank Trust Securities issued by the Trust are not reported on the Consolidated Balance Sheet. The deposit notes issued by the Bank to Scotiabank Capital Trust are reported in Deposits [refer to Note 10].

As at October 31 ($ millions)	2006	2005
Capital instrument liabilities		
Preferred shares issued by Scotia Mortgage Investment Corporation (a)(f)	**$250**	$250
Scotiabank Trust Securities — Series 2000-1 issued by BNS Capital Trust (b)(f)(g)	**500**	500
	$750	$750
Scotiabank Trust Securities not consolidated by the Bank		
Scotiabank Trust Securities — Series 2002-1 issued by Scotiabank Capital Trust (c)(f)(g)	**$750**	$750
Scotiabank Trust Securities — Series 2003-1 issued by Scotiabank Capital Trust (d)(f)(g)	**750**	750
Scotiabank Trust Securities — Series 2006-1 issued by Scotiabank Capital Trust (e)(f)(g)	**750**	—

(a) Scotia Mortgage Investment Corporation, a wholly-owned subsidiary of the Bank, issued Class A Preferred Shares (Scotia BOOMS) 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 the circumstances outlined in (f) below, 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 [refer to Note 14 – Restrictions on dividend payments].

(b) On April 4, 2000, BNS Capital Trust, a wholly-owned closed-end trust, issued 500,000 Scotiabank Trust Securities – 2000-1 ("Scotia BaTS"). Each Scotia BaTS is entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount per Scotia BaTS of $36.55. With regulatory approval, these securities

may be redeemed in whole by the payment of cash at the option of BNS Capital Trust. On or after June 30, 2011, the Scotia BaTS may be exchanged, at the option of the holder and subject to certain prior rights of the Bank, into Non-cumulative Preferred Shares Series Y of the Bank. The Non-cumulative Preferred Shares Series Y would pay a dividend rate equivalent to the cash distribution rate of the Scotia BaTS [refer to Note 14 – Restrictions on dividend payments]. Under the circumstances outlined in (f) below the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series Y of the Bank. In certain circumstances on or after June 30, 2011, the Non-cumulative Preferred Shares Series Y are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank.

(c) On April 30, 2002, Scotiabank Capital Trust, a wholly-owned open-end trust, issued 750,000 Scotiabank Trust Securities – Series 2002-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi- annually in an amount of $33.13 per security. With regulatory approval, these securities may be redeemed in whole by the payment of cash prior to June 30, 2007, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2007, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series W of the Bank. The Series W shares will be entitled to cash dividends payable semi-annually in an amount of $0.53125 per $25.00 share. Under the circumstances outlined in (f) below the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series X of the Bank. The Series X shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.70 per $25.00 share [refer to Note 14 – Restrictions on dividend payments]. In certain circumstances, on or after December 31, 2012, the Non-cumulative Preferred Shares Series W and the Non-cumulative Preferred Shares Series X are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series X of the Bank, then the Bank would become the sole beneficiary of the Trust.

(d) On February 13, 2003, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities — Series 2003-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $31.41 per security. With regulatory approval, the Scotia BaTS may be redeemed in whole by the payment of cash prior to June 30, 2008, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2008, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series U of the Bank. The Series U shares will be entitled to cash dividends payable semi-annually in an amount of $0.50 per $25.00 share. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares Series V of the Bank. The Series V shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.61250 per $25.00 share [refer to Note 14 – Restrictions on dividend payments]. In certain circumstances on or after December 31, 2013, the Non-cumulative Preferred Shares Series U and the Non-cumulative Preferred Shares Series V are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series V of the Bank, then the Bank would become the sole beneficiary of the Trust.

(e) On September 28, 2006, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities — Series 2006-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $28.25 per security. The first such payment will be made on December 31, 2006, in an amount of $14.551. With regulatory approval, these securities may be redeemed in whole by the payment of cash prior to December 30, 2011, upon the occurrence of certain tax or regulatory capital changes, or on or after December 30, 2011, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series S of the Bank. The Series S shares will be entitled to cash dividends payable semi-annually in an amount of $0.4875 per $25.00 share [refer to Note 14 – Restrictions on dividend payments]. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series T of the Bank. The Series T shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.625 per $25.00 share. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series T of the Bank, then the Bank would become the sole beneficiary of the Trust.

(f) The Scotia BOOMS and Scotia BaTS may be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares of the Bank in the following circumstances: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; or (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction. In addition, the Scotia BOOMS may be automatically exchanged if (i) Scotia Mortgage Investment Corporation fails to declare and pay or set aside for payment when due the non-cumulative preferential cash dividends on any dividend payment date; or (ii) the Bank fails to declare and pay or set aside for payment when due any declared dividend on any of its non-cumulative preferred shares.

(g) No cash distributions will be payable on the Scotia BaTS in the event that the regular dividend is not declared on the Bank's preferred shares and, if no preferred shares are outstanding, the Bank's common shares. In such a circumstance the net distributable funds of the Trust will be payable to the Bank as the holder of the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions on the Scotia BaTS in full, the Bank will not declare dividends of any kind on any of its preferred or common shares for a specified period of time [refer to Note 14 –Restrictions on dividend payments].

14. Capital stock

Authorized:

An unlimited number of preferred and common shares without nominal or par value.

Issued and fully paid:

	2006		2005		2004	
As at October 31 ($ millions)	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Preferred shares:						
Series 12(a)	**12,000,000**	**$ 300**	12,000,000	$ 300	12,000,000	$ 300
Series 13(b)	**12,000,000**	**300**	12,000,000	300	—	—
Total preferred shares	**24,000,000**	**$ 600**	24,000,000	$ 600	12,000,000	$ 300
Common shares:(c)						
Outstanding at beginning of year	**990,182,126**	**$3,316**	1,008,505,580	$ 3,228	1,010,705,772	$3,140
Issued under Shareholder Dividend and Share Purchase Plan(d)	**142,269**	**7**	154,168	6	178,021	6
Issued under Stock Option Plans (Note 15)	**6,801,687**	**127**	6,423,684	117	6,760,287	111
Issued for acquisition of a subsidiary	**33,906**	**1**	1,195,294	49	—	—
Purchased for cancellation(e)	**(7,647,800)**	**(26)**	(26,096,600)	(84)	(9,138,500)	(29)
Outstanding at end of year	**989,512,188**	**$3,425**	990,182,126	$ 3,316	1,008,505,580	$3,228
Total capital stock		**$4,025**		$ 3,916		$3,528

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

(b) Series 13 Non-cumulative Preferred Shares, issued on March 15, 2005, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.30. The initial dividend, paid July 27, 2005, was $0.4405 per share. With regulatory approval, the shares may be redeemed by the Bank on or after April 28, 2010, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 28, 2014, following which no redemption premium is payable.

(c) 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. Comparative 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.

(d) As at October 31, 2006, 21,992,220 common shares have been reserved for future issue under the terms of the Shareholder Dividend and Share Purchase Plan.

(e) In January 2006, the Bank initiated a new normal course issuer bid to purchase up to 50 million of the Bank's common shares. This represents approximately 5 per cent of the Bank's outstanding common shares. The bid will terminate on the earlier of January 5, 2007, or the date the Bank completes its purchases. During the year ended October 31, 2006, 7.6 million shares (2005 — 26.1 million shares; 2004 — 9.1 million shares) were purchased at an average price of $45.71 (2005 — $40.51; 2004 — $34.96).

Restrictions on dividend payments

Under the Bank Act, the Bank is prohibited from declaring any dividends on its common or preferred shares when the Bank is, or would be placed by such a declaration, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends to which preferred shareholders are then entitled have been paid or sufficient funds have been set aside to do so. Further, dividends cannot be declared if the total of all dividends declared in that year would exceed the aggregate of the Bank's net income to that date and its net income for the preceding two financial years, unless the Superintendent's approval is obtained.

In the event that applicable cash distributions on any of the Scotiabank Trust Securities [refer to Note 13 Capital instrument liabilities] are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities.

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

15. Stock-based compensation

(a) Stock option plans

Under the terms of the Employee Stock Option Plan, options to purchase common shares may be granted to selected employees at an exercise price not less than the closing price of the Bank's common shares on the Toronto Stock Exchange (TSX) on the day prior to the date of the grant. As well, for grants made beginning December 2005, the exercise price must not be less than the volume weighted average price on the TSX for the five trading days immediately preceding the grant date. Employee stock options granted after November 1, 2002, have Tandem Stock Appreciation Rights (Tandem SARs), which provide the employee the choice to either exercise the stock option for shares, or to exercise the Tandem SAR and thereby receive the intrinsic value of the stock option in cash. In addition, in fiscal 2003, Tandem SARs were retroactively attached to the fiscal 2002 employee stock options. All other terms and conditions relating to these 2002 stock options remained unchanged. These 2002 stock options were out of the money at the date of attachment. As a result, there was no impact on the Bank's stock-based compensation expense on the date of retroactive attachment of the Tandem SARs.

Options vest evenly over a four-year period and are exercisable no later than 10 years after the date of the grant. Outstanding options expire on dates ranging from March 3, 2007 to April 3, 2016. As approved by the shareholders, a total of 114 million common shares have been reserved for issuance under this plan of which 60.8 million common shares have been issued as a result of the exercise of options and 31.8 million common shares are committed under outstanding options, leaving 21.4 million common shares available for issuance as options.

In 2001, a Directors' Stock Option Plan was approved by the shareholders. A total of 800,000 common shares have been reserved for issuance to non-officer directors under this plan. As of November 1, 2002, director stock options are expensed using a fair-value-based method. Currently, 174,000 (2005 — 224,000; 2004 — 257,150) options are outstanding at a weighted average exercise price of $23.17 (2005 — $23.19; 2004 — $23.13). In fiscal 2006, 50,000 of these options (2005 — 33,150; 2004 — 24,850) were exercised at a weighted average exercise price of $23.25 (2005 — $22.71; 2004 —$20.95). These options expire between March 9, 2011 and December 6, 2012. Commencing in fiscal 2004, the Bank no longer grants stock options to these directors.

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

	2006		2005		2004	
As at October 31	**Number of stock options (000's)**	**Weighted average exercise price**	Number of stock options (000's)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price
Outstanding at beginning of year	**37,358**	**$ 21.35**	42,525	$ 19.93	47,400	$ 18.80
Granted	**2,052**	**46.04**	1,977	39.00	2,592	31.45
Exercised	**(6,751)**	**16.32**	(6,391)	17.00	(6,735)	15.95
Forfeited/cancelled	**(342)**	**27.33**	(149)	23.57	(374)	22.64
Exercise of Tandem SARs	**(478)**	**25.90**	(604)	25.04	(358)	24.75
Outstanding at end of year (1)	**31,839**	**$ 23.87**	37,358	$ 21.35	42,525	$ 19.93
Exercisable at end of year	**26,170**	**$ 20.98**	29,305	$ 19.06	29,523	$ 17.67
Available for grant	**21,365**		22,598		23,821	

As at October 31, 2006	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
$13.03 to $15.83	7,010	2.73	$ 14.83	7,010	$ 14.83
$17.55 to $21.03	8,936	3.45	$ 20.09	8,936	$ 20.09
$24.40 to $27.44	9,715	5.22	$ 24.60	8,694	$ 24.62
$31.45 to $47.39	6,178	7.48	$ 38.45	1,530	$ 33.66
	31,839	4.61	$ 23.87	26,170	$ 20.98

(1) Included are 15,892,372 (2005 — 15,274,605; 2004 — 14,482,584) 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 2006, the Bank's contributions totalled $26 million (2005 – $26 million; 2004 – $26 million). Contributions, which are used by the plan trustee to purchase common shares in the open market, do not result in a subsequent expense to the Bank from share price appreciation.

(c) Other stock-based compensation plans

All other stock-based compensation plans use notional units that are valued based on the Bank's common share price on the TSX. These units, with the exception of Stock Appreciation Rights (SARs), accumulate dividend equivalents in the form of additional units based on the dividends paid on the Bank's common shares. Fluctuations in the Bank's share price change the value of the units, which affects the Bank's stock-based compensation expense. As described below, the value of a portion of the Performance Share Unit notional units also varies based on Bank performance. Upon exercise or redemption, payments are made to the employees with a corresponding reduction in the accrued liability. In 2006, an aggregate expense of $164 million (2005 – $140 million; 2004 – $174 million) was recorded in salaries and employee benefits in the Consolidated Statement of Income for changes in the amount of the Bank's liability for these units. This expense was net of gains arising from securities and derivatives used to manage the volatility of stock-based compensation of $165 million (2005 – $94 million; 2004 – $138 million). 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 except where the employee is eligible to retire prior to the vesting date, in which case the cost is recognized between the grant date and the date the employee is eligible to retire. When a SAR is exercised, the Bank pays the appreciation amount in cash equal to the rise in the market price of the Bank's common shares since the grant date. During fiscal 2006, 2,284,396 SARs were granted (2005 – 2,212,980; 2004 –2,830,312) and as at October 31, 2006, 22,771,720 SARs were outstanding (2005 – 23,148,386; 2004 – 24,115,260), of which 21,624,273 SARs were vested (2005 – 13,611,252; 2004 –11,278,066).

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 year following that event. As at October 31, 2006, there were 1,465,391 units outstanding (2005 – 1,581,240; 2004 – 2,160,146).

Directors' Deferred Stock Unit Plan (DDSU)

Under the DDSU Plan, non-officer directors of the Bank may elect to receive all or a portion of their fee for that fiscal year (which is expensed by the Bank in other expenses in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only following resignation or retirement and must be redeemed by December 31 of the year following that event. As at October 31, 2006, there were 181,823 units outstanding (2005 – 145,593; 2004 – 114,774).

Restricted Share Unit Plan (RSU)

Under the RSU Plan, selected employees receive an award of restricted share units which vest at the end of three years, at which time the units are paid, in cash, to the employee. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. As at October 31, 2006, there were 3,597,093 units (2005 – 5,179,850; 2004 –5,281,075) awarded and outstanding of which 3,144,875 were vested.

Performance Share Unit Plan (PSU)

In 2004, the Bank introduced the PSU Plan for eligible executives. PSU awards vest at the end of three years and a portion of the PSU awards are subject to performance criteria measured over a three-year period. The three-year performance measures include return on equity compared to target and total shareholder return relative to the other major Canadian banks. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. This expense varies based on performance compared to the performance measures. Upon vesting, the units are paid, in cash, to the employee. As at October 31, 2006, there were 2,422,239 units (2005 – 1,279,483) awarded and outstanding [including 800,604 units (2005 – 423,177) subject to performance criteria] of which 1,601,187 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.

16. 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)	2006	2005	2004
Provision for income taxes in the Consolidated Statement of Income:			
Current	**$ 1,050**	$ 1,078	$ 873
Future	**(178)**	(231)	(87)
	872	847	786
Provision for future income taxes in the Consolidated Statement of Changes in Shareholders' Equity	**(13)**	(3)	(1)
Total provision for income taxes	**$ 859**	$ 844	$ 785
Current income taxes:			
Domestic:			
Federal	**$ 269**	$ 377	$ 210
Provincial	**178**	213	182
Foreign	**603**	488	481
	1,050	1,078	873
Future income taxes:			
Domestic:			
Federal	**(144)**	(198)	(52)
Provincial	**(15)**	(45)	(7)
Foreign	**(32)**	9	(29)
	(191)	(234)	(88)
Total provision for income taxes	**$ 859**	$ 844	$ 785

(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:

	2006		2005		2004	
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	**$ 1,586**	**34.9%**	$ 1,443	35.0%	$ 1,325	35.2%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries and foreign branches	**(467)**	**(10.3)**	(370)	(9.0)	(257)	(6.8)
Tax-exempt income from securities	**(219)**	**(4.8)**	(210)	(5.1)	(235)	(6.2)
Future income tax effect of substantively enacted tax rate changes	**4**	**0.1**	15	0.4	(22)	(0.6)
Other, net	**(32)**	**(0.7)**	(31)	(0.8)	(25)	(0.8)
Total income taxes and effective tax rate	**$ 872**	**19.2%**	$ 847	20.5%	$ 786	20.8%

(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)	2006	2005
Allowance for credit losses	**$ 746**	$ 659
Deferred compensation	**391**	301
Loss carryforwards(1)	**174**	105
Loss on disposal of subsidiary operations	**87**	87
Deferred income	**59**	82
Securities	**2**	(58)
Premises and equipment	**(63)**	(64)
Pension fund	**(254)**	(177)
Other	**336**	298
Net future income taxes(2)	**$ 1,478**	$ 1,233

(1) Includes a gross future tax asset of $357 as at October 31, 2006 (2005 — $180), relating to subsidiaries' unused income tax losses arising in prior years. This future tax asset has been reduced by a valuation allowance of $183 (2005 — $75), resulting in a net future tax asset of $174 (2005 — $105). Should the portion of the valuation allowance related to recent acquisitions be reduced in future periods, the reduction would be applied to goodwill.

(2) Net future income taxes of $1,478 (2005 — $1,233) are represented by future income tax assets of $1,626 (2005 — $1,295), net of future income tax liabilities of $148 (2005 — $62).

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, 2006, are estimated to be $401 million (October 31, 2005 — $360 million).

17. 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)	2006	2005	2004	2006	2005	2004
Change in benefit obligation						
Benefit obligation at beginning of year	**$ 4,568**	$ 3,790	$ 3,524	**$ 1,041**	$ 808	$ 747
Cost of benefits earned in the year	**143**	116	105	**42**	36	36
Interest cost on benefit obligation	**253**	250	239	**60**	55	51
Employee contributions	**9**	9	9	**—**	—	—
Benefits paid	**(198)**	(175)	(162)	**(48)**	(48)	(42)
Actuarial loss (gain)	**(75)**	560	136	**(2)**	200	40
Non-routine events(2)	**(90)**	36	(15)	**(4)**	(10)	(1)
Foreign exchange	**(22)**	(18)	(46)	**(14)**	—	(23)
Benefit obligation at end of year	**$ 4,588**	$ 4,568	$ 3,790	**$ 1,075**	$ 1,041	$ 808
Change in fair value of assets						
Fair value of assets at beginning of year	**$ 4,765**	$ 4,097	$ 3,706	**$ 207**	$ 162	$ 162
Actual return on assets	**440**	702	540	**27**	17	12
Employer contributions	**488**	157	77	**42**	73	41
Employee contributions	**9**	9	9	**—**	—	—
Benefits paid	**(198)**	(175)	(162)	**(48)**	(48)	(42)
Non-routine events(2)	**(75)**	—	(12)	**—**	—	—
Foreign exchange	**(39)**	(25)	(61)	**(7)**	3	(11)
Fair value of assets at end of year (3)	**$ 5,390**	$ 4,765	$ 4,097	**$ 221**	$ 207	$ 162
Funded status						
Excess (deficit) of fair value of assets over benefit obligation at end of year	**$ 802**	$ 197	$ 307	**$ (854)**	$ (834)	$ (646)
Unrecognized net actuarial loss	**537**	780	663	**325**	366	180
Unrecognized past service costs	**86**	81	63	**(5)**	(6)	(6)
Unrecognized transitional obligation (asset)	**(364)**	(411)	(460)	**206**	229	267
Valuation allowance	**(195)**	(182)	(171)	**—**	—	—
Employer contributions after measurement date	**6**	90	129	**10**	7	19
Net prepaid (accrued) benefit expense at end of year	**$ 872**	$ 555	$ 531	**$ (318)**	$ (238)	$ (186)
Recorded in:						
Other assets in the Bank's Consolidated Balance Sheet	**$ 1,054**	$ 729	$ 676	**$ 6**	$ 10	$ 4
Other liabilities in the Bank's Consolidated Balance Sheet	**(182)**	(174)	(145)	**(324)**	(248)	(190)
Net prepaid (accrued) benefit expense at end of year	**$ 872**	$ 555	$ 531	**$ (318)**	$ (238)	$ (186)
Annual benefit expense						
Cost of benefits earned in the year	**$ 143**	$ 116	$ 105	**$ 42**	$ 36	$ 36
Interest cost on benefit obligation	**253**	250	239	**60**	55	51
Actual return on assets	**(440)**	(702)	(540)	**(27)**	(17)	(12)
Actuarial loss (gain) on benefit obligation	**(75)**	560	136	**(2)**	200	40
Non-routine events(2)	**(16)**	36	(3)	**(4)**	(10)	(1)
Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs	**(135)**	260	(63)	**69**	264	114
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	**97**	412	272	**12**	6	—
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation	**125**	(528)	(105)	**19**	(193)	(33)
Difference between amortization of non-routine events and actual non-routine events	**23**	(28)	9	**4**	10	—
Amortization to recognize transitional obligation (asset)	**(42)**	(44)	(43)	**22**	19	23
	203	(188)	133	**57**	(158)	(10)

Valuation allowance provided against prepaid benefit expense	**13**	11	16	**—**	—	—
Benefit expense recognized, excluding defined contribution benefit expense	**81**	83	86	**126**	106	104
Defined contribution benefit expense recognized	**3**	—	—	**—**	—	—
Total benefit expense recognized	**$ 84**	$ 83	$ 86	$ **126**	$ 106	$ 104

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

(2) Non-routine events include plan amendments, acquisitions, divestitures, transfers, etc.

(3) The fair value of pension plan assets invested in common shares of the Bank totalled $552 (2005 — $540; 2004 — $498).

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)	2006	2005	2004	2006	2005	2004
Benefit obligation(1)	**$ 628**	$ 787	$ 830	**$ 1,075**	$ 1,041	$ 808
Fair value of assets	**326**	379	497	**221**	207	162
Deficit of fair value of assets over benefit obligation	**$ (302)**	$ (408)	$ (333)	**$ (854)**	$ (834)	$ (646)

(1) Includes the benefit obligation of $266 at the end of 2006 (2005 — $278; 2004 — $230) 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	2006	2005	2004	2006	2005	2004
To determine benefit obligation at end of year						
Discount rate	**5.75%**	5.50%	6.50%	**6.00%**	5.75%	6.90%
Rate of increase in future compensation(2)	**3.50%**	3.55%	3.75%	**4.40%**	3.85%	4.00%
To determine benefit expense (income) for the year						
Discount rate	**5.50%**	6.50%	6.50%	**5.75%**	6.90%	6.85%
Assumed long-term rate of return on assets	**7.50%**	7.25%	7.25%	**7.60%**	7.30%	7.60%
Rate of increase in future compensation(2)	**3.55%**	3.75%	3.95%	**4.55%**	4.00%	4.00%
Health care cost trend rates at end of year						
Initial rate	**n/a**	n/a	n/a	**8.30%**	8.90%	8.10%
Ultimate rate	**n/a**	n/a	n/a	**4.60%**	4.60%	4.90%
Year ultimate rate reached	**n/a**	n/a	n/a	**2014**	2014	2011

(1) Includes international plans which generally have higher rates than Canadian plans. The discount rate used to determine the 2006 benefit expense for the main pension plan was 5.25% (2005 — 6.25%; 2004 — 6.50%) and the discount rate for the other Canadian pension and benefit plans was 5.25% (2005 — 6.50%; 2004 — 6.50%). The discount rate for the 2006 end of year benefit obligation was 5.50% for all Canadian pension and other benefit plans (2005 — 5.25% for all Canadian pension and other benefit plans; 2004 — 6.25% for the main pension plan and 6.50% for the other Canadian pension and other benefit plans); and the assumed long-term rate of return on assets for all Canadian pension plans was 7.25% (2005 — 7.00%; 2004 — 7.00%).

(2) The 2006 weighted-average rates shown for other benefit plans do not include Canadian flexible post-retirement benefits plans established in fiscal 2005, as they are not impacted by future compensation increases.

Sensitivity analysis

	Pension plans		Other benefit plans	
For the year ended October 31, 2006 ($ millions)	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Impact of 1% decrease in discount rate	$ 795	$ 80	$ 175	$ 14
Impact of 1% decrease in assumed long-term rate of return on assets	—	41	n/a	2
Impact of 0.25% increase in rate of increase in future compensation	55	10	1	—
Impact of 1% increase in health care cost trend rate	n/a	n/a	133	20
Impact of 1% decrease in health care cost trend rate	n/a	n/a	(105)	(16)

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	2006	2005	2004	2006	2005	2004
Equity investments	**67%**	66%	67%	**17%**	15%	13%
Fixed income investments	**32%**	33%	32%	**83%**	85%	87%
Other	**1%**	1%	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, 2004, and the date of the next required valuation is November 1, 2007 (this plan

accounts for 70% of principal pension plans' benefit obligation and 72% 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, 2007. Actuarial valuations for the Bank's principal other benefit plans are generally carried out every two to three years, with the most recent valuation completed as of July 31, 2005 for the other post-retirement benefits and July 31, 2006 for post-employment benefits. The next actuarial valuations are currently scheduled in 2008.

Cash payments and contributions

In fiscal year 2006, the Bank made cash payments of $404 million (2005 — $118 million; 2004 — $179 million) to fund the principal defined benefit pension plans, including the payment of benefits to beneficiaries under the unfunded pension arrangements. The Bank also made cash payments of $45 million (2005 — $61 million; 2004 — $51 million) during the year to the principal other benefit plans, primarily in respect of benefit payments to beneficiaries under these plans. The Bank also made cash payments of $3 million to the principal defined contribution pension plans.

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18. Earnings per common share

For the year ended October 31 ($ millions)	2006	2005	2004
Basic earnings per common share			
Net income	**$ 3,579**	$ 3,209	$ 2,908
Preferred dividends paid	**30**	25	16
Net income available to common shareholders	**$ 3,549**	$ 3,184	$ 2,892
Average number of common shares outstanding (millions)	**988**	998	1,010
Basic earnings per common share (1)	**$ 3.59**	$ 3.19	$ 2.87
Diluted earnings per common share			
Net income available to common shareholders	**$ 3,549**	$ 3,184	$ 2,892
Average number of common shares outstanding (millions)	**988**	998	1,010
Stock options potentially exercisable (millions) (2)	**13**	14	16
Average number of diluted common shares outstanding (millions) (3)	**1,001**	1,012	1,026
Diluted earnings per common share (1)	**$ 3.55**	$ 3.15	$ 2.82

(1) Earnings per share calculations are based on full dollar and share amounts.

(2) Reflects the potential dilutive effect of stock options granted under the Bank's Stock Option Plans as determined under the treasury stock method. Excludes options with Tandem SAR features as these options are expensed and booked as liabilities. All other stock options are included in the computation.

(3) Certain convertible instruments have not been included in the calculation since the Bank has the right to redeem them for cash prior to conversion date.

19. Related party transactions

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

In Canada, loans are currently granted to directors, officers and employees at market terms and conditions. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers and employees of those foreign units at reduced rates or on preferred terms. Effective March 1, 2001, the Bank discontinued the practice of granting loans to officers and employees in Canada at reduced rates. Any of these loans granted prior to March 1, 2001, are grandfathered until maturity.

Directors can use some or all of their director fees earned to buy common shares of the Bank at market rates through the Directors' Share Purchase Plan.

Non-officer directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in fiscal 2004, the Bank no longer grants stock options to non-officer directors. Refer to Note 15 - Stock-based compensation for further details of these plans.

20. Segmented results of operations

Scotiabank is a diversified financial services institution that provides a wide range of financial products and services to retail, commercial and corporate customers around the world. The Bank is organized into three main operating segments: Domestic Banking, International Banking, and Scotia Capital.

Domestic Banking, including wealth management operations, provides a comprehensive array of retail and commercial banking services through branch and electronic delivery channels, to individuals and small to medium-sized businesses in Canada. The retail services include consumer and mortgage lending, credit and debit card services, savings, chequing and retirement products, personal trust services, retail brokerage, mutual funds and transaction services. In addition to credit, commercial clients are provided with deposit and cash management services.

International Banking supplies retail and commercial banking services through branches, subsidiaries and foreign affiliates. The products, services and channels offered are generally the same as those in Domestic Banking.

Scotia Capital is an integrated corporate and investment bank which services the credit, capital market and risk management needs of the Bank's global relationships with large corporations, financial institutions and governments. The services provided include credit and related products, debt and equity underwriting, foreign exchange, derivative products, precious metals products and financial advisory services. Also, it conducts trading activities for its own account and provides short-term Canadian dollar funding for the Bank.

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

The results of these business segments are based upon the internal financial reporting systems of the Bank. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. The only notable accounting measurement difference is the grossing up of tax-exempt net interest income to an equivalent before-tax basis for those affected segments. This change in measurement enables comparison of net interest income arising from taxable and tax-exempt sources.

Because of the complexity of the Bank, various estimates and allocation methodologies are used in the preparation of the business segment

financial information. The assets and liabilities are transfer-priced at wholesale market rates, and corporate expenses are allocated to each segment based on utilization. As well, capital is apportioned to the business segments on a risk- based methodology. Transactions between segments are recorded within segment results as if conducted with a third party and are eliminated on consolidation.

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

Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,682	$ 2,306	$ 951	$ (531)	**$ 6,408**
Provision for credit losses	279	60	(63)	(60)	**216**
Other income	1,935	939	1,437	489	**4,800**
Net interest and other income	5,338	3,185	2,451	18	**10,992**
Depreciation and amortization	143	62	23	2	**230**
Other non-interest expenses	3,326	1,865	932	90	**6,213**
Income before the undernoted:	1,869	1,258	1,496	(74)	**4,549**
Provision for income taxes	581	98	443	(250)	**872**
Non-controlling interest in net income of subsidiaries	—	98	—	—	**98**
Net income	$ 1,288	$ 1,062	$ 1,053	$ 176	**$ 3,579**
Preferred dividends paid	9	8	6	7	**30**
Net income available to common shareholders	$ 1,279	$ 1,054	$ 1,047	$ 169	**$ 3,549**
Total average assets ($ billions)	$ 136	$ 56	$ 130	$ 29	**$ 351**

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

Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,576	$ 1,969	$ 849	$ (523)	$ 5,871
Provision for credit losses	274	70	(71)	(43)	230
Other income	1,819	793	1,320	597	4,529
Net interest and other income	5,121	2,692	2,240	117	10,170
Depreciation and amortization	130	50	20	2	202
Other non-interest expenses	3,166	1,662	909	104	5,841
Income before the undernoted:	1,825	980	1,311	11	4,127
Provision for income taxes	566	103	390	(212)	847
Non-controlling interest in net income of subsidiaries	—	71	—	—	71
Net income	$ 1,259	$ 806	$ 921	$ 223	$ 3,209
Preferred dividends paid	6	6	6	7	25
Net income available to common shareholders	$ 1,253	$ 800	$ 915	$ 216	$ 3,184
Total average assets ($ billions)	$ 123	$ 50	$ 112	$ 24	$ 309

For the year ended October 31, 2004 ($ millions)

Taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,494	$ 1,858	$ 937	$ (588)	$ 5,701
Provision for credit losses	317	70	106	(103)	390
Other income	1,671	741	1,227	681	4,320
Net interest and other income	4,848	2,529	2,058	196	9,631
Depreciation and amortization	137	57	21	1	216
Other non-interest expenses	3,080	1,549	939	78	5,646
Income before the undernoted:	1,631	923	1,098	117	3,769
Provision for income taxes	522	126	275	(137)	786
Non-controlling interest in net income of subsidiaries	—	75	—	—	75
Net income	$ 1,109	$ 722	$ 823	$ 254	$ 2,908
Preferred dividends paid	4	4	4	4	16
Net income available to common shareholders	$ 1,105	$ 718	$ 819	$ 250	$ 2,892
Total average assets ($ billions)	$ 112	$ 49	$ 109	$ 14	$ 284

(1) Includes revenues from all other smaller operating segments of $372 in 2006 (2005 — $432; 2004 — $445), and net income available to common shareholders of $207 in 2006 (2005 — $274; 2004 — $266). 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 $440 (2005 — $326; 2004 — $274), changes in the general allowance, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

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Geographical segmentation(1)

The following table summarizes the Bank's financial results by geographic region. Revenues and expenses which have not been allocated back to specific operating business lines are reflected in corporate adjustments.

For the year ended October 31, 2006 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 4,029	$ 71	$ 802	$ 1,656	**$ 6,558**
Provision for credit losses	273	(41)	27	17	**276**
Other income	2,883	581	403	726	**4,593**
Non-interest expenses	4,110	241	630	1,448	**6,429**
Provision for income taxes	478	138	(17)	153	**752**
Non-controlling interest in net income of subsidiaries	—	—	15	83	**98**
Preferred dividends paid	12	2	3	7	**24**
	$ 2,039	$ 312	$ 547	$ 674	**$ 3,572**
Corporate adjustments					**(23)**
Net income available to common shareholders					**$ 3,549**
Total average assets ($ billions)	$ 227	$ 31	$ 21	$ 66	**$ 345**
Corporate adjustments					**6**
Total average assets, including corporate adjustments					**$ 351**

For the year ended October 31, 2005 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 3,808	$ 199	$ 690	$ 1,438	$ 6,135
Provision for credit losses	262	(93)	34	70	273
Other income	2,737	484	363	716	4,300
Non-interest expenses	3,917	246	669	1,185	6,017
Provision for income taxes	450	216	1	142	809
Non-controlling interest in net income of subsidiaries	—	—	10	61	71
Preferred dividends paid	9	2	2	6	19
	$ 1,907	$ 312	$ 337	$ 690	$ 3,246
Corporate adjustments					(62)
Net income available to common shareholders					$ 3,184
Total average assets ($ billions)	$ 205	$ 25	$ 19	$ 57	$ 306
Corporate adjustments					3
Total average assets, including corporate adjustments					$ 309

For the year ended October 31, 2004 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 3,624	$ 334	$ 599	$ 1,441	$ 5,998
Provision for credit losses	303	54	6	130	493
Other income	2,495	513	331	727	4,066
Non-interest expenses	3,794	262	618	1,158	5,832
Provision for income taxes	384	194	12	175	765
Non-controlling interest in net income of subsidiaries	—	—	15	60	75
Preferred dividends paid	6	2	1	3	12
	$ 1,632	$ 335	$ 278	$ 642	$ 2,887
Corporate adjustments					5
Net income available to common shareholders					$ 2,892
Total average assets ($ billions)	$ 188	$ 21	$ 17	$ 56	$ 282
Corporate adjustments					2
Total average assets, including corporate adjustments					$ 284

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

21. Guarantees, commitments and contingent liabilities

(a) Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform in relation to its indebtedness. The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

As at October 31 ($ millions)	2006 Maximum potential amount of future payments[1]	2005 Maximum potential amount of future payments[1]
Standby letters of credit and letters of guarantee	**$ 18,486**	$ 15,777
Liquidity facilities	**10,090**	7,728
Derivative instruments	**1,521**	1,042
Securitizations	**170**	809
Indemnifications	**549**	555

(1) The maximum potential amount of future payments represents those guarantees that can be quantified and excludes other guarantees that cannot be quantified. As many of these guarantees will not be drawn upon and the maximum potential amount of future payments listed above does not consider the possibility of recovery under recourse or collateral provisions, the above amounts are not indicative of future cash requirements, credit risk, or the Bank's expected losses from these arrangements.

Standby letters of credit and letters of guarantee

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of these guarantees does not exceed four years. The types and amounts of collateral security held by the Bank for these guarantees is generally the same as for loans. As at October 31, 2006, $12 million (2005 — $6 million) was included in other liabilities in the Consolidated Balance Sheet with respect to these guarantees.

The Bank provides partial credit enhancements in the form of financial standby letters of credit to commercial paper conduits, administered by the Bank and by third parties. As at October 31, 2006, these credit enhancements amounted to $43 million (2005 — $27 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.

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.

Derivative instruments

The Bank enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a loan or bond, if a default or other defined triggering event occurs. The Bank also enters into written option contracts under which a counterparty is granted the right, but not the obligation, to sell a specified quantity of a financial instrument at a pre-determined price on or before a set date. These written option contracts are normally referenced to interest rates, foreign exchange rates or equity prices. Typically, a corporate or government entity is the counterparty to the written credit derivative and option contracts that meet the characteristics of guarantees described above. The maximum potential amount of future payments disclosed in the table above relates to written credit derivatives, puts and floors. However, these amounts exclude certain derivatives contracts, such as written caps, as the nature of these contracts prevents quantification of the maximum potential amount of future payments. As at October 31, 2006, $42 million (2005 — $47 million) was included in Trading derivatives' market valuation in the Consolidated Balance Sheet with respect to these derivative instruments.

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 40 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, 2006, $12 million (2005 — $13 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

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(b) Other indirect commitments

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

– Commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed;

– Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions;

– Securities lending transactions under which the Bank, acting as principal or agent, agrees to lend securities to a borrower. The borrower must fully collateralize the security loan at all times. The market value of the collateral is monitored relative to the amounts due under the agreements, and where necessary, additional collateral is obtained; and

– Security purchase commitments which require the Bank to fund future investments.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

The table below provides a detailed breakdown of the Bank's other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract which are not reflected on the Consolidated Balance Sheet.

As at October 31 ($ millions)	2006(1)	2005(1)
Commercial letters of credit	**$ 982**	$ 937
Commitments to extend credit:		
Original term to maturity of one year or less	**61,453**	57,574
Original term to maturity of more than one year	**44,465**	42,335
Securities lending	**8,682**	6,675
Security purchase and other commitments	**3,299**	1,747
Total	**$118,881**	$109,268

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

(c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2006, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year ($ millions)	
2007	$166
2008	143
2009	117
2010	93
2011	70
2012 and thereafter	196
Total	$785

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $181 million (2005 — $176 million; 2004 — $170 million).

In addition, the Bank and its subsidiaries have entered into certain long-term executory contracts relating to outsourced services. The significant outsourcing arrangements have variable pricing based on utilization and are cancellable with notice.

(d) Assets pledged and repurchase agreements

In the ordinary course of business, securities and other assets are pledged against liabilities. As well, securities are sold under repurchase agreements. Details of these activities are shown below.

As at October 31 ($ millions)	2006	2005
Assets pledged to:		
Bank of Canada(1)	**$ 25**	$ 25
Foreign governments and central banks(1)	**2,605**	2,799
Clearing systems, payment systems and depositories(1)	**1,531**	1,412
Assets pledged in relation to exchange-traded derivative transactions	**108**	148
Assets pledged as collateral related to securities borrowed, and securities lent	**24,955**	15,883
Assets pledged in relation to over-the-counter derivative transactions	**1,744**	1,366
Other	**1,609**	—
Total assets pledged	**$ 32,577**	$21,633
Obligations related to securities sold under repurchase agreements	**33,470**	26,032
Total	**$ 66,047**	$47,665

(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.

22. 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.

	2006			2005		
As at October 31 ($ millions)	Total fair value	Total book value	Favourable/ (Unfavourable)	Total fair value	Total book value	Favourable/ (Unfavourable)
Assets:						
Cash resources	**$ 23,376**	**$ 23,376**	**$ —**	$ 20,505	$ 20,505	$ —
Securities	**96,593**	**95,502**	**1,091(1)**	74,618	73,459	1,159(1)
Loans	**228,486**	**228,479**	**7**	191,956	191,005	951
Customers' liability under acceptances	**9,555**	**9,555**	**—**	7,576	7,576	—
Other	**4,075**	**4,075**	**—**	3,959	3,959	—
Liabilities:						
Deposits	**264,282**	**263,914**	**(368)**	218,002	217,445	(557)
Acceptances	**9,555**	**9,555**	**—**	7,576	7,576	—
Obligations related to securities sold under repurchase agreements	**33,470**	**33,470**	**—**	26,032	26,032	—
Obligations related to securities sold short	**13,396**	**13,396**	**—**	11,250	11,250	—
Other	**24,629**	**24,629**	**—**	19,072	19,072	—
Subordinated debentures	**2,444**	**2,271**	**(173)**	2,810	2,597	(213)
Capital instrument liabilities	**809**	**750**	**(59)**	830	750	(80)
Derivatives (Note 23)	**(873)**	**(771)(2)**	**(102)**	(149)	(137)(2)	(12)

(1) This excludes net deferred hedge losses on securities of $93 (2005 — $109).

(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 until there is a recovery of fair value, which may be to maturity.

Determination of fair value

The following methods and assumptions were used to estimate the fair values of 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 values of subordinated debentures and capital instrument liabilities are determined by reference to quoted market prices. When quoted market prices are not available, fair values are estimated using current market prices for debt with similar terms and risks.

(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 reclassify the Bank's trading instruments to the Immediately rate sensitive and Within 3 months categories.

As at October 31, 2006 ($ 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	$ 231	$ 14,397	$ 2,851	$ 67	$ —	$ 5,830	$ 23,376
Investment securities	278	12,604	3,489	10,254	3,647	2,740(2)	33,012
Trading securities	—	7,984	8,046	7,417	9,790	29,253	62,490
Loans	26,887	107,806	21,697	67,297	5,529	(737)(3)	228,479
Other assets	—	—	—	—	—	31,649(4)	31,649
Total assets	$ 27,396	$142,791	$ 36,083	$ 85,035	$18,966	$ 68,735	$379,006
Deposits	$ 28,653	$154,588	$ 36,151	$ 29,783	$ 4,555	$ 10,184	$263,914
Obligations related to securities sold under repurchase agreements	—	31,971	1,499	—	—	—	33,470
Obligations related to securities sold short	—	2,080	2,264	2,277	5,301	1,474	13,396
Subordinated debentures	—	—	740	1,031	500	—	2,271
Capital instrument liabilities	—	—	—	750	—	—	750
Other liabilities	—	7,554	85	—	—	40,019(4)	47,658
Shareholders' equity	—	—	—	—	—	17,547(4)	17,547
Total liabilities and shareholders' equity	$ 28,653	$196,193	$ 40,739	$ 33,841	$10,356	$ 69,224	$379,006
On-balance sheet gap	(1,257)	(53,402)	(4,656)	51,194	8,610	(489)	—
Off-balance sheet gap	—	9,721	(11,206)	777	708	—	—
Interest rate sensitivity gap based on contractual repricing	(1,257)	(43,681)	(15,862)	51,971	9,318	(489)	—
Adjustment to expected repricing	13,477	30,799	11,462	(28,303)	(5,397)	(22,038)	—
Total interest rate sensitivity gap	**$ 12,220**	**$ (12,882)**	**$ (4,400)**	**$ 23,668**	**$ 3,921**	**$(22,527)**	**$ —**
Cumulative gap	**12,220**	**(662)**	**(5,062)**	**18,606**	**22,527**	**—**	**—**
As at October 31, 2005 ($ millions)							
Total interest rate sensitivity gap	$ 13,834	$ (8,914)	$ (1,628)	$13,051	$ 3,941	$(20,284)	$ —
Cumulative gap	13,834	4,920	3,292	16,343	20,284	—	—

(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.

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

As at October 31, 2006	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	4.3%	4.8%	5.0%	4.7%	—%	**4.8%**
Investment securities(2)	5.2	5.4	4.4	4.5	6.0	**5.1**
Trading securities	—	6.3	4.4	4.5	5.1	**5.1**
Loans(3)	7.0	6.2	6.3	5.7	7.2	**6.2**
Deposits(4)	4.0	4.0	4.1	4.0	5.1	**4.0**
Obligations related to securities sold under repurchase agreements(4)	—	4.8	6.5	—	—	**4.9**
Obligations related to securities sold short	—	4.6	4.2	4.3	4.3	**4.3**
Subordinated debentures(4)	—	—	6.0	5.8	8.6	**6.5(1)**
Capital instrument liabilities(4)	—	—	—	7.1	—	**7.1**
Other liabilities	—	5.3	5.3	—	—	**5.3**

As at October 31, 2005	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	4.8%	4.0%	5.4%	4.1%	—%	4.3%
Investment securities(2)	4.9	4.6	5.8	5.0	5.8	5.0
Trading securities	—	4.3	5.7	6.1	5.7	5.5
Loans(3)	6.2	5.1	5.5	5.7	7.7	5.5
Deposits(4)	2.5	3.1	3.2	3.9	6.3	3.2
Obligations related to securities sold under repurchase agreements(4)	—	4.7	7.7	—	—	4.9
Obligations related to securities sold short	—	3.0	3.4	4.0	4.7	4.2
Subordinated debentures(4)	—	—	5.5	6.0	8.6	6.4(1)
Capital instrument liabilities(4)	—	—	—	6.6	7.3	7.1
Other liabilities	—	3.9	4.0	—	—	3.9

(1) After adjusting for the impact of related derivatives, the yield was 6.2% (2005 — 5.2%).

(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 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.

	2006				2005
As at September 30 ($ millions)	Loans and acceptances(1)	Derivative instruments(2)	Other exposures(3)	Total	Total
By sector:					
Resource and manufacturing, excluding automotive	$ 21,359	$ 517	$ 5,305	**$ 27,181**	$23,510
Finance and government	18,386	9,162	6,624	**34,172**	24,594
Other	39,743	2,163	8,089	**49,995**	46,819
Total	$ 79,488	$ 11,842	$ 20,018	**$111,348**	$94,923
General allowance(2)(4)				**1,290**	1,308
				$110,058	$93,615
By geography(5):					
Canada	$ 32,962	$ 5,546	$ 6,160	**$ 44,668**	$41,984
United States	14,231	2,911	10,071	**27,213**	19,364
Mexico	5,555	5	254	**5,814**	5,768
Other International	26,740	3,380	3,533	**33,653**	27,807
Total	$ 79,488	$ 11,842	$ 20,018	**$111,348**	$94,923
General allowance(2)(4)				**1,290**	1,308
				$110,058	$93,615

(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 $17 (2005 — $22) of the $1,307 (2005 — $1,330) general allowance relates to loans other than business and government.

(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, 2006, and 2005, there were no material anticipatory hedges outstanding.

23. 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.

	2006			2005		
As at October 31 ($ millions)	Trading	ALM	Total	Trading	ALM	Total
Interest rate contracts						
Exchange-traded:						
Futures	$112,055	$ 12,199	**$ 124,254**	$ 58,526	$ 13,647	$ 72,173
Options purchased	13,788	—	**13,788**	8,568	—	8,568
Options written	2,128	—	**2,128**	—	—	—
	127,971	12,199	**140,170**	67,094	13,647	80,741
Over-the-counter:						
Forward rate agreements	13,649	10,070	**23,719**	18,174	9,735	27,909
Swaps	386,311	85,844	**472,155**	357,252	58,673	415,925
Options purchased	21,384	2,908	**24,292**	21,978	4,751	26,729
Options written	23,970	1,921	**25,891**	28,952	648	29,600
	445,314	100,743	**546,057**	426,356	73,807	500,163
Total	$573,285	$112,942	**$ 686,227**	$493,450	$ 87,454	$580,904
Foreign exchange and gold contracts						
Exchange-traded:						
Futures	$ 6,868	$ —	**$ 6,868**	$ 4,753	$ —	$ 4,753
Options purchased	124	—	**124**	7	—	7
Options written	104	—	**104**	6	—	6
	7,096	—	**7,096**	4,766	—	4,766
Over-the-counter:						
Spot and forwards	176,030	14,141	**190,171**	176,525	6,819	183,344
Swaps	60,356	25,004	**85,360**	49,745	11,818	61,563
Options purchased	2,475	—	**2,475**	2,200	—	2,200
Options written	2,478	—	**2,478**	2,146	—	2,146
	241,339	39,145	**280,484**	230,616	18,637	249,253
Total	$248,435	$ 39,145	**$ 287,580**	$235,382	$ 18,637	$254,019
Other derivative contracts						
Equity: over-the-counter	$ 27,678	$ 3,595	**$ 31,273**	$ 24,151	$ 3,322	$ 27,473
Credit: over-the-counter	32,832	1,993	**34,825**	20,154	938	21,092
Other	4,731	31	**4,762**	2,840	—	2,840
Total	$ 65,241	$ 5,619	**$ 70,860**	$ 47,145	$ 4,260	$ 51,405
Total notional amounts outstanding	$886,961	$157,706	**$1,044,667**	$775,977	$110,351	$886,328

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

As at October 31, 2005 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 57,910	$ 14,263	$ –	$ 72,173
Forward rate agreements	25,914	1,995	–	27,909
Swaps	131,818	206,689	77,418	415,925
Options purchased	22,538	12,302	457	35,297
Options written	14,974	11,947	2,679	29,600
	253,154	247,196	80,554	580,904
Foreign exchange and gold contracts				
Futures	3,529	1,224	–	4,753
Spot and forwards	173,778	8,315	1,251	183,344
Swaps	13,372	27,105	21,086	61,563
Options purchased	1,897	310	–	2,207
Options written	1,922	230	–	2,152
	194,498	37,184	22,337	254,019
Other derivative contracts				
Equity	20,021	6,994	458	27,473
Credit	5,379	15,304	409	21,092
Other	2,599	241	–	2,840
	27,999	22,539	867	51,405
Total	$475,651	$306,919	$103,758	$886,328

(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.

	2006					2005	
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	$ 124,254	$ –	$ –	$ –	**$ –**	$ –	$ –
Forward rate agreements	23,719	13	5	18	**8**	6	5
Swaps	472,155	3,231	2,353	5,584	**1,344**	3,798	1,351
Options purchased	38,080	185	61	246	**62**	240	69
Options written	28,019	–	–	–	**–**	–	–
	686,227	3,429	2,419	5,848	**1,414**	4,044	1,425
Foreign exchange and gold contracts							
Futures	6,868	–	–	–	**–**	–	–
Spot and forwards	190,171	2,914	2,109	5,023	**1,403**	3,372	1,532
Swaps	85,360	4,185	4,272	8,457	**2,120**	3,863	1,860
Options purchased	2,599	64	33	97	**35**	47	32
Options written	2,582	–	–	–	**–**	–	–
	287,580	7,163	6,414	13,577	**3,558**	7,282	3,424
Other derivative contracts							
Equity	31,273	632	1,932	2,564	**739**	922	806
Credit	34,825	200	1,930	2,130	**682**	173	484
Other	4,762	418	305	723	**273**	68	97
	70,860	1,250	4,167	5,417	**1,694**	1,163	1,387
Total derivatives	$1,044,667	$ 11,842	$ 13,000	$ 24,842	**$ 6,666**	$ 12,489	$ 6,236
Less: impact of master netting agreements		5,772	4,814	10,586	**2,484**	6,529	2,358
Total		$ 6,070	$ 8,186	$ 14,256	**$ 4,182**	$ 5,960	$ 3,878

(d) Fair value

Fair values of exchange-traded derivatives are based on quoted market prices. Fair values of over-the-counter (OTC) derivatives are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

The determination of the fair value of trading derivatives includes consideration, on a portfolio basis, of customer credit risk and ongoing direct costs over the life of the instruments.

The following table summarizes the fair value of derivatives segregated by type and segregated between trading and those derivatives used in the Bank's asset/liability risk management process (ALM).

	2006		**2006**		2005	
	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	$ 7	$ 4	**$ 13**	**$ 1**	$ 2	$ 6
Swaps	3,271	3,159	**2,827**	**2,658**	3,501	3,432
Options	204	226	**184**	**193**	224	264
	3,482	3,389	**3,024**	**2,852**	3,727	3,702
Foreign exchange and gold contracts						
Forwards	4,167	3,992	**2,810**	**2,629**	3,327	3,263
Swaps	3,696	3,068	**3,551**	**3,047**	3,630	2,833
Options	70	70	**64**	**63**	47	67
	7,933	7,130	**6,425**	**5,739**	7,004	6,163
Other derivative contracts						
Equity	713	1,252	**337**	**1,578**	657	838
Credit	196	621	**194**	**816**	166	415
Other	369	291	**389**	**226**	68	75
	1,278	2,164	**920**	**2,620**	891	1,328
Trading derivatives' market valuation	$ 12,693	$ 12,683	**$ 10,369**	**$ 11,211**	$ 11,622	$ 11,193
ALM(2)						
Interest rate contracts						
Forward rate agreements			**$ –**	**$ 1**	$ 4	$ 4
Swaps			**404**	**409**	297	351
Options			**1**	**1**	16	8
			405	**411**	317	363
Foreign exchange and gold contracts						
Forwards			**104**	**86**	45	68
Swaps			**634**	**988**	233	982
Options			**–**	**–**	–	–
			738	**1,074**	278	1,050
Other derivative contracts						
Equity			**295**	**5**	265	27
Credit			**6**	**14**	7	5
Other			**29**	**–**	–	–
			330	**19**	272	32
Total ALM derivatives' market valuation			**$ 1,473**	**$ 1,504**	$ 867	$ 1,445
Total gross fair values before netting			**$ 11,842**	**$ 12,715**	$ 12,489	$ 12,638
Less: impact of master netting agreements			**5,772**	**5,772**	6,529	6,529
Total derivatives' market valuation			**$ 6,070**	**$ 6,943**	$ 5,960	$ 6,109

(1) The average fair value of trading derivatives' market valuation for the year ended October 31, 2005 are favourable $12,894 and unfavourable $12,554. 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.

24. Acquisitions

(a) Canadian acquisitions

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

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

(b) International acquisitions

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

On September 1, 2006, the Bank also acquired Corporacion Interfin, the parent company of Banco Interfin in Costa Rica for $325 million. Total assets at acquisition were approximately $1.6 billion, with the majority of the assets being loans. The Bank has not completed its assessment and valuation of the assets acquired and liabilities assumed for this acquisition. As a result, the amount of the purchase price in excess of carrying value of the acquired assets and liabilities has not been fully allocated to the acquired assets and liabilities in the Consolidated Balance Sheet.

In 2005, the Bank completed three acquisitions: Banco de Comercio in El Salvador; Waterous & Co., a global oil and gas energy acquisition and divestiture advisory firm; and the business of Pan American Financial, a mortgage originator in Puerto Rico. Total goodwill of $227 million and other intangible assets of $24 million have been recorded in the Consolidated Balance Sheet. During 2006, a further amount of $16 million of goodwill was recorded in relation to these acquisitions.

The purchase price allocations for 2006 acquisitions may be refined as the Bank completes its valuation of the assets acquired and liabilities assumed. These Canadian and International purchases did not have a material effect on the Bank's consolidated financial results or the consolidated financial position for the fiscal year.

25. 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

For the year ended October 31 ($ millions)	2006	Net income 2005	2004
Net income based on Canadian GAAP	**$ 3,579**	$ 3,209	$ 2,908
Employee future benefits (a)	**24**	(16)	1
Restructuring costs (b)	**—**	(2)	(23)
Transfers of loans (c)	**(9)**	(8)	(21)
Derivative instruments and hedging activities (d)	**(1)**	(1)	60
Unrealized gains (losses) on securities reclassified as trading (d)	**(2)**	(7)	55
Conversion of loans into debt securities (e)	**9**	86	39
Available-for-sale securities (e)	**8**	45	81
Computer software (f)	**(20)**	(22)	(29)
Stock-based compensation (g)			
Transition adjustment	**(12)**	—	—
Current year adjustments	**(23)**	—	—
Liabilities and equity (h)	**—**	—	14
Other	**—**	—	10
Tax effect of above differences	**3**	(21)	(49)
Net income based on U.S. GAAP	**$ 3,556**	$ 3,263	$ 3,046
Preferred dividends paid and other	**(30)**	(25)	(30)
Net income available to common shareholders based on U.S. GAAP	**$ 3,526**	$ 3,238	$ 3,016
Earnings per common share based on U.S. GAAP (in dollars) (1):			
Basic	**$ 3.57**	$ 3.24	$ 2.99
Diluted	**$ 3.52**	$ 3.20	$ 2.94

(1) 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 were reversed under U.S. GAAP and the costs are expensed as incurred. For restructuring costs incurred for activities initiated after March 31, 2003, Canadian and U.S. GAAP are consistent.

(c) Transfers of loans through securitizations

Effective July 1, 2001, the Bank adopted a new Canadian accounting guideline for transfers of loans on a prospective basis. This guideline is consistent with the U.S. standard for transfers of loans adopted on April 1, 2001.

Prior to the adoption of the new Canadian guideline, transfers of loans were treated as sales under Canadian GAAP when the significant risks and rewards of ownership were transferred. Gains on transfers of loans were recognized immediately, unless there was recourse to the Bank in excess of expected losses, in which case the gains were considered unrealized and deferred until they were collected in cash and there was no recourse to that cash. Under U.S. GAAP, gains on transfers of loans that qualify as sales are recognized in income at the time of sale. There will continue to be differences in Canadian and U.S. GAAP income until the deferred gains related to assets securitized prior to July 1, 2001 have all been recognized in Canadian GAAP income.

Prior to the harmonization of Canadian and U.S. GAAP, some transfers of assets did not qualify for sale accounting under U.S. GAAP. These transfers have been accounted for as secured lending arrangements under U.S. GAAP. This results in the assets remaining on the U.S. GAAP Consolidated Balance Sheet and in the net spread being recognized in U.S. GAAP income over the term of the loans rather than immediate

recognition of a gain.

(d) Derivative instruments and hedging activities

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.

U.S. GAAP 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 $5 million (2005 – after-tax loss of $5 million; 2004 – after-tax loss of $17 million), which represents the ineffective portion of designated hedges.

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 fixed rate instruments in addition to cash flow hedges of its variable rate instruments. The Bank expects to reclassify an after-tax loss of $15 million (2005 – after-tax gain of $7 million; 2004 – after-tax gain of $10 million) from accumulated other comprehensive income to earnings as a result of its cash flow hedges within the next twelve months. As at October 31, 2006, 2005 and 2004, the maximum term of cash flow hedges was less than 10 years.

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. This requirement resulted in a U.S. GAAP after-tax loss of $2 million in 2006 (2005 – after-tax gain of $1 million; 2004 – after-tax loss of $10 million).

(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 a number of 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) Stock-based compensation

Effective November 1, 2005, the Bank adopted, on a modified prospective basis, a new standard issued by the U.S. Financial Accounting Standards Board amending the accounting for stock-based compensation to new awards and to any awards modified, repurchased or cancelled after the effective date. The prospective adoption of the standard requires the use of a fair-value-based method, rather than an intrinsic-value-based method, to measure and account for the cost of employee services received in exchange for an award linked to the Bank's common shares. The greatest impact was on the Bank's employee stock option plan.

The pre-tax cumulative effect of adopting the new standard on November 1, 2005 and the incremental U.S. GAAP stock-based compensation expense in 2006 were $12 million and $23 million, respectively. These amounts were quantified using the Black-Scholes option pricing model and the following weighted average assumptions:

As at	October 31, 2006	November 1, 2005
Risk-free interest rate	4.16%	3.83%
Expected dividend yield	3.16%	3.07%
Expected price volatility	16.5%	15.9%
Expected life of option	5.7 years	5.4 years

Under Canadian GAAP, the Bank uses an intrinsic-value-based method to record stock-based compensation expense for all liability classified awards. Effective November 1, 2005, the Bank adopted a new pronouncement amending the accounting for stock-based compensation for employees eligible to retire before the vesting date. Details are provided in Note 1. There was also a corresponding change in U.S. GAAP; however, this change is required to be applied prospectively under U.S. GAAP for awards granted in fiscal 2006.

(h) Liabilities and equity

Under Canadian GAAP, effective November 1, 2004, the Bank retroactively adopted, with restatement of prior periods, a new pronouncement amending the accounting for certain financial instruments that have the characteristics of both a liability and equity [refer to Note 13]. There was no corresponding change in U.S. GAAP. The dividends paid on the preferred shares issued directly by the Bank that have retroactively been reclassified as interest expense under Canadian GAAP in 2004 continue to be recorded in shareholders' equity under U.S. GAAP.

Under Canadian GAAP, the preferred shares issued by Scotia Mortgage Investment Corporation and the Scotiabank Trust Securities issued by BNS Capital Trust are recorded as capital instrument liabilities whereas under U.S. GAAP, these are recorded as non-controlling interest in subsidiaries.

(i) Guarantees

U.S. GAAP requires recognition of a liability for the fair value of the obligation assumed at the inception of the arrangement for guarantees issued or modified after December 31, 2002. The fair value under U.S. GAAP for guarantees at October 31, 2006 amounted to $340 million (2005 – $304 million). The amount excludes derivative instruments meeting the Canadian GAAP definition of guarantees, the fair value of which is included in the amounts disclosed in Note 23.

(j) Variable interest entities (VIEs)

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. Under Canadian GAAP, the Bank prospectively adopted, on November 1, 2004, a new guideline on the consolidation of VIEs, which, apart from the difference in effective dates, is harmonized with U.S. GAAP.

There were no differences in 2006 or 2005 relating to the consolidation of VIEs under U.S. GAAP.

(k) Non-cash collateral

Under Canadian GAAP, non-cash collateral received as part of securities lending transactions is not recognized in the Consolidated Balance Sheet. Under U.S. GAAP, collateral received for transactions where the Bank lends securities as principal is accounted for as a secured borrowing in the Consolidated Balance Sheet.

The adjustment for non-cash collateral received in securities lending transactions resulted in an addition to other assets of $8,922 million (2005 – $6,969 million) and an addition to other liabilities of $8,922 million (2005 – $6,969 million).

(l) 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.

(m) Non-controlling interest in subsidiaries

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

Consolidated statement of comprehensive income

For the year ended October 31 ($ millions)	2006	2005	2004
Net income based on U.S. GAAP	**$ 3,556**	$ 3,263	$ 3,046
Other comprehensive income, net of income taxes:			
Change in unrealized gains and losses on available-for-sale securities, net of hedging activities(1)	**(18)**	(211)	101
Change in unrealized foreign currency translation gains and losses, net of hedging activities(2)	**(360)**	(178)	(705)
Change in gains and losses on derivative instruments designated as cash flow hedges (3)	**(38)**	9	(8)
Change in additional minimum pension liability (4)	**2**	(29)	16
Total other comprehensive income	**$ (414)**	$ (409)	$ (596)
Total comprehensive income	**$ 3,142**	$ 2,854	$ 2,450

Accumulated other comprehensive income

For the year ended October 31 ($ millions)	2006	2005	2004
Unrealized gains and losses on available-for-sale securities, net of hedging activities	**$ 842**	$ 860	$ 1,071
Unrealized foreign currency translation gains and losses, net of hedging activities	**(2,435)**	(2,075)	(1,897)
Derivative instruments	**(55)**	(17)	(26)
Additional minimum pension liability	**(39)**	(41)	(12)
Total accumulated other comprehensive income	**$ (1,687)**	$ (1,273)	$ (864)

(1) Net of income tax benefit of $4 (2005 – benefit of $112; 2004 – expense of $115).

(2) Net of income tax of nil (2005 – nil; 2004 – benefit of $1).

(3) Net of income tax benefit of $20 (2005 – expense of $3; 2004 – expense of $1).

(4) Net of income tax expense of $2 (2005 – benefit of $16; 2004 – expense of $7).

CONSOLIDATED FINANCIAL STATEMENTS

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.

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)	**2006**	2005	2004
Net income, as reported	**$ 3,556**	$ 3,263	$ 3,046
Pro-forma fair value of stock options not previously expensed	**—**	—	21
Pro-forma net income	**$ 3,556**	$ 3,263	$ 3,025
Earnings per share(1):			
Basic, as reported	**$ 3.57**	$ 3.24	$ 2.99
Basic, pro-forma	**$ 3.57**	$ 3.24	$ 2.97
Diluted, as reported	**$ 3.52**	$ 3.20	$ 2.94
Diluted, pro-forma	**$ 3.52**	$ 3.20	$ 2.92

(1) Earnings per share calculations are based on full dollar and share amounts.

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 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. 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%. By the end of fiscal 2004, all stock options issued prior to November 1, 2002, were fully amortized.

Condensed consolidated balance sheet

	2006			2005		
As at October 31 ($ millions)	**Canadian GAAP**	**Adjustments**	**U.S. GAAP**	Canadian GAAP	Adjustments	U.S. GAAP
Assets						
Cash resources	**$ 23,376**	**$ —**	**$ 23,376**	$ 20,505	$ —	$ 20,505
Securities						
Investment/Available-for-sale	**33,012**	**585d,e**	**33,597**	23,452	650c,d,e	24,102
Trading	**62,490**	**166d,e**	**62,656**	50,007	56d,e	50,063
Loans	**228,479**	**1,332c,d**	**229,811**	191,005	674c	191,679
Derivative instruments	**10,369**	**2,157d**	**12,526**	11,622	1,366d	12,988
Other	**21,280**	**11,122(1)**	**32,402**	17,434	6,587(5)	24,021
	$379,006	**$ 15,362**	**$394,368**	$314,025	$ 9,333	$323,358
Liabilities and shareholders' equity						
Liabilities						
Deposits	**$263,914**	**$ 1,358c,d**	**$265,272**	$217,445	$ 717c,d	$218,162
Derivative instruments	**11,211**	**2,163d**	**13,374**	11,193	1,911d	13,104
Other	**82,878**	**11,180(2)**	**94,058**	65,652	5,954(6)	71,606
Non-controlling interest in subsidiaries	**435**	**(435)m**	**—**	306	(306)m	—
Subordinated debentures	**2,271**	**14d**	**2,285**	2,597	52d	2,649
Capital instrument liabilities	**750**	**(750)h**	**—**	750	(750)h	—
	$361,459	**$ 13,530**	**$374,989**	$297,943	$ 7,578	$305,521
Non-controlling interest in subsidiaries	**$ —**	**$ 1,185h,m**	**$ 1,185**	$ —	$ 1,056h,m	$ 1,056
Shareholders' equity						
Capital stock						
Preferred shares	**$ 600**	**$ —**	**$ 600**	$ 600	$ —	$ 600
Common shares and contributed surplus	**3,425**	**—**	**3,425**	3,317	—	3,317
Retained earnings	**15,843**	**13(3)**	**15,856**	14,126	11(7)	14,137
Cumulative foreign currency translation	**(2,321)**	**2,321l**	**—**	(1,961)	1,961l	—
Accumulated other comprehensive income	**—**	**(1,687)(4)**	**(1,687)**	—	(1,273)(8)	(1,273)

	$ 17,547	**$ 647**	**$ 18,194**	$ 16,082	$ 699	$ 16,781
	$379,006	**$ 15,362**	**$394,368**	$314,025	$ 9,333	$323,358

Note references refer to GAAP differences described above.

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

(2) Refer to a, b, c, d, e, g, i, k.

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

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

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

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

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

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

Future accounting changes

Accounting for uncertainty in income taxes

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48)*, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. This FASB interpretation is effective for the Bank beginning November 1, 2007. The impact of this standard has not yet been determined.

Accounting for employee future benefits

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R).* The standard will require an employer to recognize the overfunded or underfunded status of a defined benefit pension and other post-retirement benefit plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The statement will also require an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, rather than up to three months before that date, with limited exceptions. The minimum pension liability currently recorded under U.S. GAAP will no longer be required. The statement is effective for the Bank on October 31, 2007. In the case of the requirement to measure the funded status as of the year-end date, this is effective for the Bank on October 31, 2008. The impact of this standard has not yet been determined.

Accounting for certain hybrid financial instruments

In February 2006, the FASB issued FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statement No. 133 and 140*, amending the accounting for certain hybrid financial instruments. This standard allows an entity to elect to measure certain hybrid financial statements at fair value in their entirety, with changes in fair value recognized in earnings. The requirements of this standard will be effective for the Bank beginning November 1, 2006. This standard is not anticipated to have a material impact on the Bank's U.S. GAAP consolidated financial statements.

PRINCIPAL SUBSIDIARIES

Principal Subsidiaries(1)

As at October 31, 2006 ($ millions)	Principal office	Carrying value of shares
Canadian		
BNS Capital Trust	Toronto, Ontario	$ 121
BNSII Group	Toronto, Ontario	$ 9,115
Montreal Trust Company of Canada	Montreal, Quebec	
MontroServices Corporation	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
BNS Investments Inc.	Toronto, Ontario	
Maple Trust Company	Toronto, Ontario	$ 232
National Trustco Inc.	Toronto, Ontario	$ 472
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Toronto, Ontario	
RoyNat Inc.	Toronto, Ontario	$ 60
Scotia Capital Inc.	Toronto, Ontario	$ 257
Scotia Cassels Investment Counsel Limited	Toronto, Ontario	$ 10
Scotia Life Insurance Company	Toronto, Ontario	$ 79
Scotia Mortgage Corporation	Toronto, Ontario	$ 235
Scotia Mortgage Investment Corporation	St. John's, Newfoundland	$ 54
Scotia Securities Inc.	Toronto, Ontario	$ 490
Scotiabank Capital Trust(2)	Toronto, Ontario	$ 8
International		
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	$ 144
The Bank of Nova Scotia International Limited	Nassau, Bahamas	$ 7,323
BNS International (Barbados) Limited	Warrens, Barbados	
Corporacion Interfin	San Jose, Costa Rica	
The Bank of Nova Scotia Asia Limited	Singapore	
The Bank of Nova Scotia Trust Company (Bahamas) Limited	Nassau, Bahamas	
Scotiabank & Trust (Cayman) Limited	Grand Cayman, Cayman Islands	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotiabank (Bahamas) Limited	Nassau, Bahamas	
Scotiabank (British Virgin Islands) Limited	Road Town, Tortola, B.V.I.	
Scotiabank (Hong Kong) Limited	Hong Kong, China	
Scotiabank (Ireland) Limited	Dublin, Ireland	
The Bank of Nova Scotia Jamaica Limited (70%)	Kingston, Jamaica	$ 299
Grupo Financiero Scotiabank, S.A. de C.V. (97%)	Mexico, D.F., Mexico	$ 1,892
Nova Scotia Inversiones Limitada	Santiago, Chile	$ 408
Scotiabank Sud Americano, S.A. (99%)	Santiago, Chile	
Scotia Capital (USA) Inc.	New York, New York	(3)
Scotia Holdings (US) Inc.	Atlanta, Georgia	(4)
The Bank of Nova Scotia Trust Company of New York	New York, New York	
Scotiabanc Inc.	Atlanta, Georgia	
Scotia International Limited	Nassau, Bahamas	$ 618
Grupo BNS de Costa Rica, S.A.	San Jose, Costa Rica	
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	$ 201
Scotiabank El Salvador, S.A. (99%)	San Salvador, El Salvador	$ 332
Scotiabank Europe plc	London, England	$ 2,138
Scotiabank Peru, S.A. (77.6%)	Lima, Peru	$ 467
Scotiabank Trinidad & Tobago Limited (51%)	Port of Spain, Trinidad	$ 136

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

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

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

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

Management's Report on Internal Control over

Financial Reporting

The management of The Bank of Nova Scotia (the Bank) is responsible for establishing and maintaining adequate internal control over financial reporting, and have designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to U.S. GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Bank's internal control over financial reporting as of October 31, 2006, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, who have audited the consolidated financial statements of the Bank, have also audited management's assessment of internal controls over financial reporting and have issued the report below.

Rick Waugh
President and Chief Executive Officer

Luc Vanneste
Executive Vice-President and
Chief Financial Officer

Toronto, December 8, 2006

Report of Independent Registered Public Accounting Firm

To the Shareholders of The Bank of Nova Scotia

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that The Bank of Nova Scotia (the Bank) maintained effective internal control over financial reporting as of October 31, 2006, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles, including a reconciliation to U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Bank maintained effective internal control over financial reporting as of October 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by COSO. Also, in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of October 31, 2006, based on the criteria established in Internal Control – Integrated Framework issued by COSO.

We have also audited the consolidated balance sheet of the Bank as at October 31, 2006 and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Our report dated December 8, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP
Chartered Accountants
Toronto, Canada,

December 8, 2006

Exhibit 6

CORPORATE GOVERNANCE

Corporate Governance Regulation

The Board of Directors and management believe that a strong, effective, independent Board plays a crucial role in protecting the interests of stakeholders and maximizing the value they receive from their investment in the Bank. The Board is committed to meeting high standards of corporate governance in all aspects of the Bank's affairs.

The Bank's corporate governance practices are regulated on a number of levels and by many different parties. Our corporate governance practices meet or exceed the standards set out in the guidelines and rules of the Bank Act and those of the Canadian Securities Administrators ("CSA"), which include Multilateral Instrument 52-110, Multilateral Instrument 52-109, National Policy 58-201 and National Instrument 58-101. Our practices also comply with applicable requirements of the New York Stock Exchange ("NYSE") and the Sarbanes-Oxley Act of 2002 ("SOX"), including applicable rules of the U.S. Securities and Exchange Commission ("SEC"). The Bank is not required to comply with most of the NYSE corporate governance rules (the "NYSE Corporate Governance Rules"). However, except as summarized in the Corporate Governance section of the Bank's website at www.scotiabank.com, the Bank's corporate governance practices do not differ significantly from the NYSE Corporate Governance Rules.

The Corporate Governance Policies and the committee charters are available in the Corporate Governance section of the Bank's website at www.scotiabank.com and in print to any shareholder who requests a copy from the Secretary of the Bank. Additional information on the Bank's Audit and Conduct Review Committee, including a copy of its charter and descriptions of its members and their applicable education and experience, can be found in Exhibit 1, the Bank's Annual Information Form under the heading "The Bank's Audit and Conduct Review Committee" and in Schedule "A" thereto.

Director Independence

The Bank is committed to complying with all applicable laws, rules and regulations related to the status of its Directors. The Board has approved Director Independence Standards (the "Independence Standards") which provide a framework for the Board to assess any material relationships of the Directors with the Bank. The Independence Standards reflect the applicable independence requirements set out by the CSA and the NYSE. The text of the Independence Standards can be found in the Corporate Governance section of the Bank's website and are attached below. The Board annually reviews the independence of the Directors against the Independence Standards. In assessing Director independence, the Board considers all relevant facts and circumstances, including the relationships of the non-management Directors, their spouses, children, principal business affiliations and others to the Bank. To assist the Board with its determination, all Directors annually complete a detailed questionnaire about their business relationships and shareholdings. Also, each year, all Directors must certify their compliance with the Bank's Guidelines for Business Conduct, which include the requirement for Directors to declare any material interest in matters coming before the Board.

Fourteen of sixteen, or 87.5%, of the Bank's current Directors are independent, as defined under the Independence Standards, including the Chairman of the Board, Mr. Arthur R.A. Scace.

The following Directors are independent: Ronald A. Brenneman, C.J. Chen, N. Ashleigh Everett, John C. Kerr, The Honourable Michael J.L. Kirby, Laurent Lemaire, John T. Mayberry, The Honourable Barbara J. McDougall, Elizabeth Parr-Johnston, Alexis E. Rovzar, Arthur R.A. Scace, Paul D. Sobey, Allan C. Shaw and Barbara S. Thomas.

The following two Directors have been determined by the Board of Directors to be non-independent: 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).

Director Independence Standards

A majority of the Bank's directors are independent, as required by Canadian Securities Administrators' National Policy 58-201 — *Corporate Governance Guidelines* and the current NYSE listed company corporate governance rules. To be considered independent under these rules, the Board must determine that a director has no direct or indirect material relationship with the Bank. A material relationship is a relationship that could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's judgement independent of management. The Board will examine relationships such as the nature of the director's banking, lending or other business dealings with the Bank or a director's role in a charitable organization which has received a certain level of contributions from the Bank. The rules permit the Board to adopt categorical standards in making its independence determinations. The standards adopted by the Board are reproduced below. Definitions and interpretation of terms in the standards are in accordance with applicable source rules and regulations, as amended from time to time. In applying these standards, the Board broadly considers all relevant facts and circumstances.

1. A director will not be independent if:
    - the director is, or has been within the last three years, an employee or executive officer of the Bank or a subsidiary, or an immediate family member of the director is, or has been within the last three years, an executive officer of the Bank or a subsidiary;
    - the director has received, or an immediate family member of the director has received for service as an executive officer, during any twelve-month period within the last three years, more than the lesser of Cdn$75,000 and US$100,000 in direct compensation from the Bank or a subsidiary, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
    - (a) the director or an immediate family member of the director is a current partner of a firm that is the Bank's or a subsidiary's internal or external auditor; (b) the director is a current employee of such firm; (c) an immediate family member of the director is a current employee of such a firm and participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (d) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Bank's or a subsidiary's audit within that time;

- the director or an immediate family member of the director, is, or has been within the last three years, employed as an executive officer of another company where any of the Bank's or a subsidiary's present executive officers at the same time serves or served on that company's compensation committee;
- the director is currently an employee, or an immediate family member of the director is currently an executive officer, of a company that has made payments to, or received payments from, the Bank or a subsidiary for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of US$1 million or 2% of such other company's consolidated gross revenues (with the exception that contributions to tax exempt organizations shall not be considered payments for this purpose); or
- the director is "affiliated" with the Bank as that term is used in the Affiliated Persons (Banks) Regulations made under the *Bank Act* (Canada).

An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares the person's home.

2. In addition to satisfying the independence standards set forth above, members of the audit committee must satisfy the following additional independence requirements:
   - An audit committee member may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Bank or any subsidiary, other than compensation in his or her capacity as a member of the Board or any committee or any fixed amount of compensation under a retirement plan (including deferred compensation) for prior service with the Bank (provided such compensation is not contingent in any way on continued service);
   - An audit committee member may not be an "affiliated" person of the Bank or any subsidiary, as defined in applicable Canadian and U.S. securities laws.

Whether directors meet these categorical independence standards will be reviewed and will be made public annually prior to their standing for re-election to the Board. For relationships not covered by the standards in section 1 above, the determination of whether the relationship is material, and therefore whether the director would be independent, will be made by the directors who satisfy those standards. The Bank will disclose the basis for any Board determination that a relationship is immaterial despite the fact that it does not meet the categorical standards set forth above.

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of The Bank of Nova Scotia

We consent to the inclusion in this annual report on Form 40-F of The Bank of Nova Scotia (the "Bank") for the fiscal year ended October 31, 2006 of (i) our audit report dated December 8, 2006 on the Consolidated Balance Sheet of the Bank as at October 31, 2006, and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for the year then ended; (ii) our Comments by Auditors for US Readers on Canada-US Reporting Differences, dated December 8, 2006; and (iii) our audit report dated December 8, 2006 on management's assessment of the effectiveness of internal control over financial reporting as of October 31, 2006 and the effectiveness of internal control over financial reporting as of October 31, 2006.

/s/ KPMG LLP
Chartered Accountants

Toronto, Canada
December 19, 2006

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Chartered Accountants

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

To the Board of Directors of The Bank of Nova Scotia

We consent to the inclusion in this annual report on Form 40-F of The Bank of Nova Scotia (the "Bank") for the fiscal year ended October 31, 2006 of our audit report dated November 29, 2005 on the Consolidated Balance Sheet of The Bank of Nova Scotia as at October 31, 2005 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the two-year period ended October 31, 2005.

/s/ KPMG LLP
Chartered Accountants

/s/ PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Canada
December 19, 2006

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COMMENTS BY AUDITORS FOR US READERS ON CANADA — US REPORTING DIFFERENCES

To the Board of Directors of The Bank of Nova Scotia (the "Bank')

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) that refers to the audit report on the effectiveness of the Bank's internal control over financial reporting. Our report to the shareholders dated December 8, 2006 is expressed in accordance with Canadian reporting standards, which do not require a reference to the audit report on the effectiveness of the Bank's internal control over financial reporting in the financial statement auditors' report.

In addition, in the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Bank's financial statements, such as the change described in Note 1 (stock-based compensation) to the consolidated financial statements as at October 31, 2006 and for the year then ended. Our report to the shareholders dated December 8, 2006 is expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

/s/ KPMG LLP
Chartered Accountants

Toronto, Canada
December 8, 2006

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Shareholders' Auditors' Report

To the Shareholders of The Bank of Nova Scotia

We have audited the Consolidated Balance Sheet of The Bank of Nova Scotia as at October 31, 2005 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the two-year period ended October 31, 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2005 in accordance with Canadian generally accepted accounting principles.

/s/ KPMG LLP
Chartered Accountants

Toronto, Canada
November 29, 2005

/s/ PricewaterhouseCoopers LLP
Chartered Accountants

Exhibit 11

CERTIFICATIONS

I, RICHARD E. WAUGH, certify that:

1. I have reviewed this annual report on Form 40-F of The Bank of Nova Scotia;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: December 19, 2006

/s/ R. Waugh

President and Chief Executive Officer

CERTIFICATIONS

I, LUC A. VANNESTE, certify that:

1. I have reviewed this annual report on Form 40-F of The Bank of Nova Scotia;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: December 19, 2006

/s/ Luc Vanneste

Executive Vice-President and
Chief Financial Officer

Exhibit 12

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

In connection with the annual report of The Bank of Nova Scotia (the "Bank") on Form 40-F for the year ended October 31, 2006 (the "Report") as filed with the U.S. Securities and Exchange Commission,

I, Richard E. Waugh, President and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to my knowledge:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

/s/ R. Waugh

December 19, 2006

Richard E. Waugh
President and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

In connection with the annual report of The Bank of Nova Scotia (the "Bank") on Form 40-F for the year ended October 31, 2006 (the "Report") as filed with the U.S. Securities and Exchange Commission,

I, Luc A. Vanneste, Executive Vice President and Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to my knowledge:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

December 19, 2006

/s/ Luc Vanneste
Luc A. Vanneste
Executive Vice President and
Chief Financial Officer