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, 2009 **Commission File Number 001-31316**

THE BANK OF NOVA SCOTIA

(Exact name of Registrant as specified in its charter)

CANADA
(Province or other jurisdiction of incorporation or organization)

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

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

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

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

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

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

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

Not applicable
(Title of Class)

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

Not applicable
(Title of Class)

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

þ Annual information form þ Audited annual financial statements

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

Common Shares	1,024,939,384
Preferred Shares, Series 12	12,000,000
Preferred Shares, Series 13	12,000,000
Preferred Shares, Series 14	13,800,000
Preferred Shares, Series 15	13,800,000
Preferred Shares, Series 16	13,800,000
Preferred Shares, Series 17	9,200,000
Preferred Shares, Series 18	13,800,000
Preferred Shares, Series 20	14,000,000
Preferred Shares, Series 22	12,000,000

Preferred Shares, Series 24	10,000,000
Preferred Shares, Series 26	13,000,000
Preferred Shares, Series 28	11,000,000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232/405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes o No o

CONTROLS AND PROCEDURES

Management's responsibility for financial information contained in the Annual Report is described on page 104 of Exhibit 3, 2009 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 2009 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 and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

As of October 31, 2009, the Bank's management, with the participation of the CEO and CFO, evaluated the effectiveness of its disclosure controls and procedures, as defined under the rules adopted by the U.S. Securities and Exchange Commission ("SEC") and the Canadian securities regulatory authorities, and have concluded that the Bank's disclosure controls and procedures are effective.

Internal controls over financial reporting

Management of the Bank is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include 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 Bank; (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 are being made only in accordance with authorizations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Bank's management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management assessed the effectiveness of internal controls over financial reporting, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, and based on that assessment concluded that internal control over financial reporting was effective, as of October 31, 2009.

Changes in internal controls over financial reporting

There have been no changes in the Bank's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting during the year ended October 31, 2009.

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 4.

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 SEC 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" (the "Guidelines"). These Guidelines have been in place for many years and apply to all directors, officers and employees of the Bank. Effective August 1, 2008, the Guidelines were updated to reflect current industry best practices. A copy of the revised Guidelines was filed as an exhibit to Form 6-K filed with the SEC (EDGAR Company Filings) on August 1, 2008. The Guidelines are available on the Bank's website at www.scotiabank.com, in the Corporate Governance section, and are available in print to any person, without charge, upon written request to the Secretary of the Bank at the Toronto executive office address shown above. A supplement to the Guidelines, entitled Financial Reporting Whistleblower Policy, is also posted on the Bank's website. Amendments to the Guidelines 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 2009.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The disclosure provided in Table 57 "Fees paid to the shareholders' auditors" on page 92 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 the statutory audits and review of financial statements, as well as services associated with registration statements, prospectuses,

periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

- Audit-related services include attest services required by regulatory bodies not directly linked to the financial statements, review of controls and procedures related to regulatory reporting, audits of employee benefit plans, other associated entities and mutual funds, special attest services not required by statute or regulation, but requested by a party to a specific transaction and consultation and training on accounting and financial reporting under International Financial Reporting Standards. In 2008, these services included specified procedures with respect to a potential international acquisition.
- Tax services outside of the audit scope represent primarily specified review procedures required by local tax authorities, attestation on tax returns of certain subsidiaries as required by local tax authorities, review to determine compliance with an agreement with the tax authorities and the preparation of personal tax returns of individuals not in financial reporting or accounting roles.
- Other non-audit services are primarily providing industry salary surveys and review of and translation of English language financial statements into other languages.

None of the above services were approved pursuant to an exemption under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X from the requirement that the audit committee pre-approve the services. The majority of the hours expended on the audits of the 2009 and 2008 consolidated financial statements were attributable to work performed by the full-time permanent employees of the Bank's independent auditors, KPMG LLP. The Audit and Conduct Review Committee's pre-approval policies and procedures, as revised effective March 5, 2007, were attached as Exhibit 7 to the Form 40-F filed on December 19, 2007 for the fiscal year ended October 31, 2007. The pre-approval policies and procedures have been subsequently approved without changes at each annual review.

OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under "Off-Balance Sheet Arrangements" on pages 43 to 46 and "Variable Interest Entities" on page 80 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 1 on pages 111 to 116, note 4(c) on page 120, note 6 on pages 121 and 122, note 13 on pages 124 to 126, note 14 on pages 126 to 128, note 23 on pages 139 to 141, note 24 on pages 141 to 149, note 25 on pages 150 and 151, and note 27 on pages 152 to 156 of Exhibit 3, 2009 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 74 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 10 on page 123, note 19 on pages 134 to 136, note 23 on pages 139 to 141, note 24 on pages 141 to 149, and note 25 on pages 150 and 151 of Exhibit 3, 2009

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, Thomas C. O’Neill, Alexis E. Rovzar de la Torre, Indira V. Samarasekera, Paul D. Sobey, and Barbara S. Thomas. Ex-officio member: John T. Mayberry.

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/ Luc A. Vanneste
Name: Luc A. Vanneste
Title: Executive Vice President and
Chief Financial Officer

Date: December 8, 2009

EXHIBIT INDEX

Exhibit No.	Description
1.	Annual Information Form dated December 8, 2009
2.	Management's Discussion and Analysis (pages 21 through 101 of the 2009 Annual Report)
3.	2009 Consolidated Financial Statements (pages 103 through 160 of the 2009 Annual Report)
4.	Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm (page 102 of the 2009 Annual Report)
5.	Corporate Governance
6.	Auditors' Consent
7.	Comments by Auditors for U.S. Readers on Canada — U.S. Reporting Differences
8.	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
9.	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

Exhibit 1



The Bank of Nova Scotia

ANNUAL INFORMATION FORM

DECEMBER 8, 2009

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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 8, 2009 (the "AIF"), are disclosed in the Management's Discussion and Analysis for the year ended October 31, 2009 (the "MD&A"). The MD&A 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, 2009. Amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles.

Forward-looking Statements

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

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. Do not unduly rely on forward-looking statements, as a number of important factors, many of which are beyond our control, could cause actual results to differ materially from the estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; significant market volatility and interruptions; the failure of third parties to comply with their obligations to us and our affiliates; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; the effect of changes to our credit ratings; amendments to, and interpretations of, risk-based capital guidelines and reporting instructions and liquidity regulatory guidance; operational and reputational risks; the risk that the Bank's risk management models may not take into account all relevant factors; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; the Bank's ability to expand existing distribution channels and to develop and realize revenues from new distribution channels; the Bank's ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital markets activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; fraud by internal or external parties, including the use of new technologies in unprecedented ways to defraud the Bank or its customers; consolidation in the Canadian financial services sector; competition, both from new entrants and established competitors; judicial and regulatory proceedings; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. For more information, see the discussion on pages 62 to 76 inclusive, of the Bank's 2009 MD&A and those pages are incorporated herein by reference.

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

CORPORATE STRUCTURE

Name, Address and Place of Incorporation

The Bank was granted a charter under the laws of the Province of Nova Scotia in 1832 and commenced operations in Halifax, Nova Scotia in that year. Since 1871, the Bank has been a chartered bank under the *Bank Act* (Canada) (the "Bank Act"). The Bank is a Schedule I bank under the Bank Act and the Bank Act is its charter. The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 3B7 and its executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1. A copy of the Bank's by-laws is available on www.sedar.com.

Intercorporate Relationships

Each international principal subsidiary of the Bank is incorporated or established and existing under the laws of the jurisdiction in which its principal office is located, with the exceptions of Scotia Holdings (US) Inc. and Scotiabanc Inc., which are incorporated and existing under the laws of the State of Delaware. Each Canadian principal subsidiary of the Bank is incorporated or established and existing under the laws of Canada, with the exceptions of: BNS Capital Trust, Scotia Capital Inc., Scotia Securities Inc., Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust, Scotiabank Tier 1 Trust and 1548484 Ontario Limited, which are incorporated or established and existing under the laws of the Province of Ontario.

The Bank's principal subsidiaries are listed on Schedule "A".

GENERAL DEVELOPMENT 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. Through its team of close to 68,000 employees, the Bank and its affiliates offer a broad range of products and services, including retail, commercial, corporate and investment banking to almost 14.6 million customers in some 50 countries around the world.

In the fiscal year ended October 31, 2009, the Bank's net income available to common shareholders was $3,361 million, an increase of $328 million or 10.8% higher than 2008. Earnings per share (on a diluted basis) were $3.31, up 8.5% from $3.05 in 2008. Return on equity was 16.7%. In fiscal 2009, the Bank's actual dividend payout ratio was 59%, down from 63% in 2008.

In the fiscal year ended October 31, 2008, the Bank's net income available to common shareholders was $3,033 million, a decrease of $961 million or 24% lower than 2007. Earnings per share (on a diluted basis) were $3.05, down 24% from $4.01 in 2007. Return on equity was 16.7%, compared to 22% in 2007. In fiscal 2008, the Bank's actual dividend payout ratio was 63%, up from 43% in 2007.

In the fiscal year ended October 31, 2007, the Bank's net income available to common shareholders was a record $3,994 million, an increase of $445 million or 13% higher than 2006. Earnings per share (on a diluted basis) were $4.01, up 13% from $3.55 in 2006. Return on equity was 22%, in line with 2006. In fiscal 2007, the Bank's actual dividend payout ratio was 43%, up from 42% in 2006 and within the Bank's target payout range of 35% to 45%.

DESCRIPTION OF THE BANK'S BUSINESS

General Summary

The Bank has three major business lines: Canadian 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 2009 MD&A, on pages 51 to 61 inclusive, and those pages are herein incorporated by reference.

Canadian Banking

Canadian Banking provides a full range of banking and investing services to more than 7.4 million customers across Canada, through a network of 1,019 branches and 2,964 automated banking machines ("ABMs"), and 101 Wealth Management offices, as well as telephone and Internet banking. Canadian 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, trust and estate planning, as well as private client services for affluent clients. Commercial Banking delivers a full product suite to medium and large businesses, including banking, cash management, lending and leasing.

International Banking

International Banking encompasses the Bank's retail and commercial banking operations in more than 40 countries outside Canada — an international presence unmatched by our domestic competitors. More than 46,000 employees, including subsidiaries and affiliates, provide a full range of financial services to over 5 million customers through a network of 1,907 branches and offices, 3,509 ABMs, telephone and Internet banking, in-store banking kiosks, and specialized sales forces. International Banking operates in the following geographic regions: the Caribbean and Central America, Mexico, Latin America and Asia.

Scotia Capital

Scotia Capital is the wholesale banking arm of the Scotiabank Group. It offers a wide variety of products to corporate, government and institutional investor clients. Scotia Capital is a full service lender and investment dealer in Canada and Mexico, and offers a wide range of products in the United States. It also provides select products and services to niche markets in Europe and Asia. Scotia Capital provides corporate lending, equity underwriting and mergers and acquisitions advisory services, as well as capital markets products and services such as fixed income, derivatives, prime brokerage, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious 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, 55 foreign banks and over 1,000 credit unions and caisses populaires. In total, the Canadian financial services industry includes more than 3,500 financing institutions such as life insurance companies, property and casualty insurers, consumer finance companies, independent investment dealers and independent retail mutual fund management companies.

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

Competition is reflected in the range of products and services offered, innovation in features, services, technology and delivery and the different pricing adopted. A good measure of the competition in the sector is the narrow margins in Canada. Canada has had, on average since 1996, the lowest interest rate spreads of all countries monitored by the World Economic Forum. Increased access to the Canadian payments system has also contributed to increased competition in the

marketplace. Recent changes to the Canadian Payments Act allow life insurance companies, securities dealers and money market mutual funds to offer clients chequing privileges on their accounts and permits clients to conduct electronic commerce through direct access to the Interac debit and credit system. Another indicator of competition is new entrants into the market and there have been nine domestic and ten foreign bank entrants that have received charters from the federal bank regulator since 2003.

Supervision and Regulation in Canada

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

In accordance with the Bank Act, an organization may engage in and carry on the business of banking and such business generally as pertains to the business of banking. The Bank Act grants Canadian chartered banks broad powers of investment in the securities of other corporations and entities, but imposes limits upon substantial investments. Under the Bank Act, generally a bank has a substantial investment in a body corporate when (a) 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 (b) 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 (the "Minister") or the Superintendent of Financial Institutions Canada (the "Superintendent") is required prior to making the investment and/or the bank is required to control the entity. Canadian chartered banks may offer through their branch network credit or charge-card related insurance, creditors' disability insurance, creditor's life insurance, creditors' loss of employment insurance, creditors' vehicle inventory insurance, export credit insurance, mortgage insurance and travel insurance. Outside bank branches, a bank may offer insurance only in the limited circumstances prescribed by the Bank Act.

Without Minister approval, no person or group of associated persons may own more than 10% of any class of shares of the Bank. No person may be a major shareholder of a bank if the bank has equity of $8 billion or more (which would include the Bank). A person is a major shareholder of a bank if: (a) the aggregate of shares of any class of voting shares beneficially owned by that person and that are beneficially owned by any entities controlled by that person is more than 20% of that class of voting shares; or (b) the aggregate of shares of any class of non-voting shares beneficially owned by that person and that are beneficially owned by any entities controlled by that person is more than 30% of that class of non-voting shares. Ownership of the Bank's shares by Canadian or foreign governments is prohibited under the Bank Act. However, on March 12, 2009, Bill C-10, the Budget Implementation Act, 2009 (the "Bill"), received Royal Assent. The Bill includes certain amendments to the Bank Act that would permit the Canadian federal government to acquire shares of a bank, including the Bank, if the Minister and Governor in Council were to conclude that to do so was necessary to promote stability in the financial system. While the government holds any shares of a bank, including the Bank, the Minister may impose certain terms and conditions, including conditions on the payment by the Bank of dividends on any of its shares.

The Superintendent is responsible to the Minister 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. 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 Industry Regulatory Organization of Canada for broker dealers and the Mutual Fund Dealers Association for mutual fund dealers.

Supervision and Regulation Outside Canada

United States

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

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

U.S. banking organizations have been subject to an enhanced compliance atmosphere since passage in October 2001 of the USA Patriot Act in response to the events of September 11, 2001. The Act increased 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 created various crimes and penalties and expanded the extraterritorial jurisdiction of the United States. Failure of a financial institution to comply with these requirements could have serious legal and reputational consequences for the institution.

Mexico

Grupo Financiero Scotiabank Inverlat, S.A. de C.V. is an "affiliate holding company" pursuant to the Law for the Regulation of Financial Groups of Mexico and to the Rules for the Establishment of Foreign Affiliate Financial Institutions of Mexico. The governing authority is the Ministry of Finance of Public Credit of Mexico and the supervising and regulatory authorities are the Central Bank of Mexico, the National Banking and the Securities Commission, the National Commission for the Retirement Savings System, and the National Commission for the Protection of the Users of Financial Services.

Other Jurisdictions

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

General Supervision and Regulation

As a result of the recent turmoil in Canada and international banking and financial industries, the Bank may face increased regulation. It is not possible to anticipate what form any new regulation may take, or its impact on the Bank. However, compliance with such regulation could increase the Bank's costs and impact its ability to pursue business opportunities.

Social and Environmental Policies

Each year the Bank publishes its Corporate Social Responsibility Report, which provides details of the Bank's social and environmental policies. This document and additional social and environmental information can be found on the Bank's website in the Corporate Social Responsibility section.

Risk Factors

The risks faced by the Bank are described on pages 62 to 76 inclusive of the MD&A and those pages are incorporated herein by reference.

DIVIDENDS

Restrictions on the Payment of Dividends

Under the Bank Act, the Bank is prohibited from declaring any dividends on its common shares or preferred shares when the Bank is, or would be placed by such a declaration, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends to which preferred shareholders are then entitled have been paid or sufficient funds have been set aside to do so. In fiscal 2009, the Bank paid all of the non-cumulative preferred share dividends.

In the event that applicable cash distributions on any of the Scotiabank Trust Securities (meaning securities issued by BNS Capital Trust, Scotiabank Capital Trust and Scotiabank Tier 1 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.

Dividend Payments

In fiscal 2009, the Bank's actual dividend payout ratio was 59% down from 63% in 2008. The Bank has declared and paid the following dividends on its common shares and preferred shares over the past three completed financial years:

	2009	2008	2007
Common Shares	$ 1.96	$ 1.92	$ 1.74
Series 12	$ 1.3125	$ 1.3125	$ 1.3125
Series 13	$ 1.20	$ 1.20	$ 1.20
Series 14[1]	$ 1.125	$ 1.125	$0.84606
Series 15[2]	$ 1.125	$ 1.125	$0.62954
Series 16[3]	$ 1.3125	$1.376325	
Series 17[4]	$ 1.40	$ 1.03753	
Series 18[5]	$ 1.25	$ 0.744	
Series 20[6]	$ 1.25	$ 0.4803	
Series 22[7]	$ 1.4204		
Series 24[8]	$ 1.3677		
Series 26[9]	$1.19649		
Series 28[10]	$1.15796		

1 13.8 million Preferred Shares, Series 14 commenced trading on January 24, 2007. The initial dividend was paid on April 26, 2007 and was $0.28356 per share. Thereafter, quarterly dividends were at a rate of $0.28125 per share.

2 13.8 million Preferred Shares, Series 15 commenced trading on April 5, 2007. The initial dividend was paid on July 27, 2007 and was $0.34829 per share. Thereafter, quarterly dividends were at a rate of $0.28125 per share.

3 13.8 million Preferred Shares, Series 16 were issued and commenced trading on October 12, 2007. The initial dividend was paid on January 29, 2008 and was $0.39195 per share. Thereafter, quarterly dividends were at a rate of $0.328125 per share.

4 9.2 million Preferred Shares, Series 17 were issued and commenced trading on January 31, 2008. The initial dividend was paid on April 28, 2008 and was $0.33753 per share. Thereafter, quarterly dividends were at a rate of $0.35000 per share.

5 12 million Preferred Shares, Series 18 were issued and commenced trading on March 25, 2008, and pursuant to the exercise of the underwriters' over-allotment option, an additional 1.8 million Preferred Shares, Series 18 were issued and commenced trading on March 27, 2008. The initial dividend was paid on July 29, 2008 and was $0.4315 per share. Thereafter, quarterly dividends were at a rate of $0.3125 per share.

6 14 million Preferred Shares, Series 20 were issued and commenced trading on June 10, 2008. The initial dividend was paid on July 29, 2008 and was $0.1678 per share. Thereafter, quarterly dividends were at a rate of $0.3125 per share.

7 12 million Preferred Shares, Series 22 were issued and commenced trading on September 9, 2008. The initial dividend was paid on January 28, 2009 and was $0.4829 per share. Thereafter, quarterly dividends were at a rate of $0.3125 per share.

8 10 million Preferred Shares, Series 24 were issued by the Bank to Sun Life Financial Inc. ("Sun Life") as partial consideration for the acquisition by the Bank from Sun Life of 104,609,895 trust units of CI Financial Income Fund and commenced trading on December 12, 2008. The initial dividend was paid on April 28, 2009 and was $0.5865 per share. Thereafter, quarterly dividends were at a rate of $0.3906 per share.

9 13 million Preferred Shares, Series 26 were issued and commenced trading on January 21, 2009. The initial dividend was paid on April 28, 2009 and was $0.41524 per share. Thereafter, quarterly dividends were at a rate of $0.390625 per share.

10 11 million Preferred Shares, Series 28 were issued and commenced trading on January 30, 2009. The initial dividend was paid on April 28, 2009 and was $0.37671 per share. Thereafter, quarterly dividends were at a rate of $0.390625 per share.

DESCRIPTION OF THE BANK'S CAPITAL STRUCTURE

Common Shares

The authorized common share capital of the Bank consists of an unlimited number of common shares, without nominal or par value, of which 1,024,939,384 common shares were issued and outstanding as at October 31, 2009.

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, 2009, 12,000,000 non-cumulative preferred shares, series 12 (the "Preferred Shares, Series 12"), 12,000,000 non-cumulative preferred shares, series 13 ("Preferred Shares, Series 13"), 13,800,000 non-cumulative preferred shares, series 14 ("Preferred Shares, Series 14"), 13,800,000 non-cumulative preferred shares, series 15 ("Preferred Shares, Series 15"), 13,800,000 non-cumulative preferred shares, series 16 ("Preferred Shares, Series 16"), 9,200,000 non-cumulative preferred shares, series 17 ("Preferred Shares, Series 17"), 13,800,000 non-cumulative preferred shares, series 18 ("Preferred Shares, Series 18"), 14,000,000 non-cumulative preferred shares, series 20 ("Preferred Shares, Series 20"), 12,000,000 non-cumulative preferred shares, series 22 ("Preferred Shares, Series 22"), 10,000,000 non-cumulative preferred shares, series 24 ("Preferred Shares, Series 24"), 13,000,000 non-cumulative preferred shares, series 26 ("Preferred Shares, Series 26") and 11,000,000 non-cumulative preferred shares, series 28 ("Preferred Shares, Series 28") were issued and outstanding. In addition, non-cumulative preferred shares, series 19 ("Preferred Shares, Series 19"), non-cumulative preferred shares, series 21 ("Preferred Shares, Series 21"), non-cumulative preferred shares, series 23 ("Preferred Shares, Series 23"), non-cumulative preferred shares,

series 25 (“Preferred Shares, Series 25”), non-cumulative preferred shares, series 27 (“Preferred Shares, Series 27”) and non-cumulative preferred shares, series 29 (“Preferred Shares, Series 29”) were authorized. None of the Preferred Shares, Series 19, Preferred Shares, Series 21, Preferred Shares, Series 23, Preferred Shares, Series 25, Preferred Shares, Series 27 and Preferred Shares, Series 29 are currently outstanding. The term “Preferred Shares” shall refer to the Preferred Shares, Series 12, the Preferred Shares, Series 13, the Preferred Shares, Series 14, the Preferred Shares, Series 15, the Preferred Shares, Series 16, the Preferred Shares, Series 17, the Preferred Shares, Series 18, the Preferred Shares, Series 20, the Preferred Shares, Series 22, the Preferred Shares, Series 24, the Preferred Shares, Series 26 and the Preferred Shares, Series 28.

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

Dividends

The holders of the Preferred Shares will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors of the Bank, 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 the rate specified in the terms of each series. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on a series of Preferred Shares on or before the dividend payment date for a particular quarter, then the entitlement of the holders of such series of Preferred Shares to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The holders of the Preferred Shares, Series 18, Preferred Shares, Series 20, Preferred Shares, Series 22, Preferred Shares, Series 24, Preferred Shares, Series 26 and Preferred Shares, Series 28 are entitled to receive fixed quarterly, non-cumulative cash dividends, as and when declared by the Board of Directors of the Bank, for the specified initial period as set out in the terms of each series, and thereafter the dividend rate for each series will reset every five years at the rate specified in the terms for such series.

Redemption

The Preferred Shares will not be redeemable prior to the date specified in the terms for each series. On and after such dates, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to certain conditions being met, the Bank may redeem at the time specified in the terms of each series all or any part of an outstanding series of Preferred Shares at the Bank’s option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed as specified in the terms of each series.

Notice of any redemption of any series of Preferred Shares will be given by the Bank at least 30 days and not more than 60 days prior to the date fixed for redemption. Other than the Preferred Shares, Series 12 and Preferred Shares, Series 13 which grant discretion to the Board of Directors of the Bank in the case of a partial redemption, if less than all the outstanding Preferred Shares in any series are at any time to be redeemed, the shares to be redeemed will be redeemed pro rata, disregarding fractions.

Rights Upon Dissolution or Winding-Up

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

Restrictions on Dividends and Retirement of Shares

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

(a) declare, pay or set apart for payment any dividends on the common shares of the Bank or any other shares ranking junior to the Preferred Shares (other than stock dividends payable in shares ranking junior to the Preferred Shares);

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

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

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

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

Exchange Rights

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.

Conversion Rights

Holders of Preferred Shares, Series 18 will have the right, at their option, on April 26, 2013 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 18 registered in their name into Preferred Shares, Series 19 on the basis of one Preferred Share, Series 19 for each Preferred Share, Series 18.

Holders of Preferred Shares, Series 20 will have the right, at their option, on October 26, 2013 and on October 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 20 registered in their name into Preferred Shares, Series 21 on the basis of one Preferred Share, Series 21 for each Preferred Share, Series 20.

Holders of Preferred Shares, Series 22 will have the right, at their option, on January 26, 2014 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of

evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 22 registered in their name into Preferred Shares, Series 23 on the basis of one Preferred Share, Series 23 for each Preferred Share, Series 22.

Holders of Preferred Shares, Series 24 will have the right, at their option, on January 26, 2014 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 24 registered in their name into Preferred Shares, Series 25 on the basis of one Preferred Share, Series 25 for each Preferred Share, Series 24.

Holders of Preferred Shares, Series 26 will have the right, at their option, on April 26, 2014 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 26 registered in their name into Preferred Shares, Series 27 on the basis of one Preferred Share, Series 27 for each Preferred Share, Series 26.

Holders of Preferred Shares, Series 28 will have the right, at their option, on April 26, 2014 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 28 registered in their name into Preferred Shares, Series 29 on the basis of one Preferred Share, Series 29 for each Preferred Share, Series 28.

Purchase for Cancellation

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 series of Preferred Share outstanding, in the open market at the lowest price or prices at which in the opinion of the Board of Directors of the Bank such shares are obtainable.

Issuance of Other Series of Preferred Shares

The Bank may issue other series of preferred shares ranking on parity with the Preferred Shares without the authorization of the holders of the Preferred Shares.

Voting Rights

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

Certain Provisions of Authorized Preferred Shares of the Bank — Preferred Shares, Series 19, Preferred Shares, Series 21, Preferred Shares, Series 23, Preferred Shares, Series 25, Preferred Shares, Series 27 and Preferred Shares, Series 29

None of the Preferred Shares, Series 19, Preferred Shares, Series 21, Preferred Shares, Series 23, Preferred Shares, Series 25, Preferred Shares, Series 27 and Preferred Shares, Series 29 (collectively, the “Converted Preferred Shares”) are currently outstanding.

Dividends

The holders of the Converted Preferred Shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors of the Bank, subject to the provisions of the Bank Act, on the third last business day of January, April, July and October in each year at the rate specified in the terms of each series. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on a series of Converted Preferred Shares on or before the dividend payment date for a particular quarter, then the entitlement of the

holders of such series of Converted Preferred Shares to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

Redemption

Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to certain conditions being met, the Bank may redeem at the time specified in the terms of each series all or any part of an outstanding series of Converted Preferred Shares at the Bank's option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed as specified in the terms of each series together with declared and unpaid dividends to the date fixed for redemption.

Notice of any redemption of any series of Converted Preferred Shares 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 Converted Preferred Shares in any series are at any time to be redeemed, the shares to be redeemed will be redeemed pro rata, disregarding fractions.

Rights Upon Dissolution or Winding-Up

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

Restrictions on Dividends and Retirement of Shares

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

(a) declare, pay or set apart for payment any dividends on the common shares of the Bank or any other shares ranking junior to the Converted Preferred Shares (other than stock dividends payable in shares ranking junior to the Converted Preferred Shares);

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

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

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

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

Conversion Rights

Holders of Preferred Shares, Series 19 will have the right, at their option, on April 26, 2018 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 19 registered in their name into Preferred Shares, Series 18 on the basis of one Preferred Share, Series 18 for each Preferred Share, Series 19.

Holders of Preferred Shares, Series 21 will have the right, at their option, on October 26, 2018 and on October 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 21 registered in their name into Preferred Shares, Series 20 on the basis of one Preferred Share, Series 20 for each Preferred Share, Series 21.

Holders of Preferred Shares, Series 23 will have the right, at their option, on January 26, 2019 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 23 registered in their name into Preferred Shares, Series 22 on the basis of one Preferred Share, Series 22 for each Preferred Share, Series 23.

Holders of Preferred Shares, Series 25 will have the right, at their option, on January 26, 2019 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 25 registered in their name into Preferred Shares, Series 24 on the basis of one Preferred Share, Series 24 for each Preferred Share, Series 25.

Holders of Preferred Shares, Series 27 will have the right, at their option, on April 26, 2019 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 27 registered in their name into Preferred Shares, Series 26 on the basis of one Preferred Share, Series 26 for each Preferred Share, Series 27.

Holders of Preferred Shares, Series 29 will have the right, at their option, on April 26, 2019 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 29 registered in their name into Preferred Shares, Series 28 on the basis of one Preferred Share, Series 28 for each Preferred Share, Series 29.

Purchase for Cancellation

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 series of Converted Preferred Shares outstanding in the open market at the lowest price or prices at which in the opinion of the Board of Directors of the Bank such shares are obtainable.

Issuance of Other Series of Preferred Shares

The Bank may issue other series of preferred shares ranking on parity with the Converted Preferred Shares without the authorization of the holders of the Converted Preferred Shares.

Voting Rights

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

Constraints on Ownership of the Bank's Shares

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

Ratings of Securities

The following ratings have been assigned to the Bank's securities by the rating agencies noted below. Credit ratings, including stability or provisional ratings, are not recommendations to purchase, sell or hold a security as they do not comment on market price or suitability for a particular investor. Ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. Ratings are subject to revision or withdrawal at any time by the rating agency. Each rating listed in the chart below should be evaluated independently of any other rating applicable to our debt and preferred shares.

	Moody's Investor Service	Standard & Poor's	Fitch Ratings	DBRS
Senior long-term debt / deposits	Aa1	AA-	AA-	AA
Subordinated debt	Aa2	A+	A+	AA (low)
Short-term deposits / commercial paper	P-1	A-1+	F1+	R-1 (high)
Non-cumulative preferred shares	Aa3	A/P-1 (low)*	Not rated	Pfd-1 (low)

* Canadian scale

The above-noted ratings have the following meanings:

Moody's Investor Service ("Moody's")

- Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more.
- Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. The numerical modifiers (1), (2) and (3) indicate higher, middle and lower rankings respectively within the Aa rating category.
- Moody's short-term ratings are opinions of the issuer's ability to honour short-term financial obligations. A P-1 rating indicates that an issuer has a superior ability to repay short-term debt obligations.

Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P")

- An obligation rated AA differs from the highest rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. The minus sign (-) is a modifier to show relative standing within the AA category.
- An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. The plus sign (+) is a modifier to show relative standing within the A category.
- A short-term obligation rated A-1 is in the highest category by S&P. The obligor's capacity to meet its financial commitments is strong. The plus sign (+) indicates that the obligor's capacity to meet its financial commitment is extremely strong.
- The Bank's non-cumulative preferred shares are rated A using S&P's global scale. The Bank's non-cumulative preferred shares are also rated P-1 (low) on S&P's Canadian scale for preferred shares. The "P-1" rating is in the highest of the five categories used by S&P on its Canadian preferred share scale. A reference to "high" or "low" reflects the relative strength within the rating category.

Fitch Ratings

- AA rated securities have a very high credit quality and denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. The minus sign (-) denotes relative status within the AA category.
- A rated securities have a high credit quality and denote a low expectation of credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to business or economic conditions than is the case for higher ratings. The plus sign (+) denotes relative status within the A category.

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

DBRS Limited ("DBRS")

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

MARKET FOR SECURITIES OF THE BANK

The Bank's common shares trade under the stock symbol "BNS" on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE"). The Preferred Shares are listed on the TSX under the stock symbols "BNS.PR.J" for the Preferred Shares, Series 12, "BNS.PR.K" for the Preferred Shares, Series 13, "BNS.PR.L" for the Preferred Shares, Series 14, "BNS.PR.M" for the Preferred Shares, Series 15, "BNS.PR.N" for the Preferred Shares, Series 16, "BNS.PR.O" for the Preferred Shares, Series 17, "BNS.PR.P" for the Preferred Shares, Series 18, "BNS.PR.Q" for the Preferred Shares, Series 20, "BNS.PR.R" for the Preferred Shares, Series 22, "BNS.PR.S" for the Preferred Shares, Series 24, "BNS.PR.T" for the Preferred Shares, Series 26, and "BNS.PR.X" for the Preferred Shares, Series 28. 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

The following table sets out the price range and trading volume of the Bank's securities on the TSX (as reported by Bloomberg) for the periods indicated.

		Preferred Shares											
	Common Shares	Series 12	Series 13	Series 14	Series 15	Series 16	Series 17	Series 18	Series 20	Series 22	Series 24(1)	Series 26(2)	Series 28(3)
November 2008													
-High Price ($)	40.68	21.45	19.40	17.81	17.72	21.85	22.90	24.10	24.25	24.00	—	—	—
-Low Price ($)	28.83	15.49	14.00	13.53	13.77	15.02	16.75	20.50	19.75	20.20	—	—	—
-Volume ('000)	73,267	260	343	391	340	307	257	426	154	179	—	—	—
December 2008													
-High Price ($)	36.38	19.80	17.75	17.24	17.40	19.90	20.80	22.60	22.75	22.00	—	—	—
-Low Price ($)	28.61	16.41	15.39	14.35	13.80	16.05	18.01	21.25	19.75	19.50	—	—	—
-Volume ('000)	84,337	597	610	788	708	733	495	333	347	391	—	—	—
January 2009													
-High Price ($)	34.00	20.61	19.53	18.40	17.85	20.98	22.00	23.90	22.75	23.24	—	25.35	25.00
-Low Price ($)	27.35	19.43	17.53	17.06	16.57	19.60	20.35	22.00	20.80	21.15	—	24.90	24.80
-Volume ('000)	80,310	162	299	260	301	180	243	371	179	195	—	1,489	496
February 2009													
-High Price ($)	31.55	20.40	18.90	18.47	17.98	20.30	21.87	23.00	23.00	22.74	—	25.40	25.44
-Low Price ($)	23.99	19.55	17.73	17.20	16.45	19.32	20.41	22.00	21.00	21.15	—	24.80	24.75
-Volume ('000)	73,869	138	122	213	186	144	151	200	109	103	—	597	1,516
March 2009													
-High Price ($)	33.18	20.00	18.37	17.47	17.00	20.05	21.74	23.64	22.35	22.00	—	25.59	25.74
-Low Price ($)	25.28	18.82	17.26	16.05	15.81	18.13	19.85	22.00	19.20	19.60	—	25.00	25.07
-Volume ('000)	97,572	164	199	263	348	180	105	184	228	138	—	763	778
April 2009													
-High Price ($)	35.85	21.18	19.05	18.00	17.92	21.45	22.28	24.10	24.43	23.70	—	26.96	27.40
-Low Price ($)	30.30	19.41	17.57	16.66	16.61	19.25	20.95	22.83	21.75	22.00	—	25.33	25.48
-Volume ('000)	103,382	120	151	188	457	189	130	291	235	175	—	680	665
May 2009													
-High Price ($)	39.00	21.96	19.90	18.71	18.91	22.29	23.99	25.00	24.70	24.75	—	26.99	27.31
-Low Price ($)	25.09	21.00	19.06	17.81	17.80	21.37	22.32	23.91	23.90	23.70	—	26.35	26.29
-Volume ('000)	77,234	241	204	350	253	339	117	605	314	381	—	392	327
June 2009													
-High Price ($)	44.51	22.15	20.24	19.45	19.26	21.95	23.69	25.70	25.28	25.45	—	27.50	27.99
-Low Price ($)	38.61	21.50	19.53	18.52	18.49	21.01	22.97	24.90	24.40	24.41	—	26.80	26.66
-Volume ('000)	75,551	202	211	196	330	316	183	494	506	331	—	422	339
July 2009													
-High Price ($)	46.51	22.97	21.23	19.85	19.93	22.68	24.20	26.20	26.00	26.19	—	28.00	28.00
-Low Price ($)	39.60	21.53	19.80	18.60	18.52	21.16	23.13	25.08	24.90	25.08	—	27.20	27.00
-Volume ('000)	71,182	222	232	228	235	720	152	698	411	323	—	456	339
August 2009													
-High Price ($)	48.62	24.36	22.31	21.20	21.16	24.23	25.40	26.15	26.00	26.00	—	27.82	28.07
-Low Price ($)	43.16	22.66	20.80	19.76	19.76	22.50	24.31	25.84	25.56	25.59	—	27.40	27.47
-Volume ('000)	74,645	151	562	306	289	319	299	265	478	270	—	692	243
September 2009													
-High Price ($)	49.19	24.45	21.99	20.79	20.85	23.97	25.30	26.39	26.15	26.21	—	28.18	28.14
-Low Price ($)	42.95	23.44	21.46	20.42	20.40	23.50	24.92	26.00	25.76	25.66	—	27.71	27.66
-Volume ('000)	84,570	121	188	334	473	265	336	405	317	283	—	537	426
October 2009													
-High Price ($)	49.14	24.25	21.99	20.60	20.63	23.91	25.19	26.28	26.18	25.98	—	28.00	28.09
-Low Price ($)	43.48	22.78	20.66	19.30	19.40	22.57	23.71	25.60	25.28	25.20	—	27.10	27.02
-Volume ('000)	64,995	167	221	316	307	203	156	215	282	431	—	444	544

(1) The Preferred Shares, Series 24 were issued on December 12, 2008 by the Bank to Sun Life Financial Inc. as partial consideration for the acquisition by the Bank of trust units of CI Financial Income Fund (now CI Financial Corp.).

(2) The Preferred Shares, Series 26 were issued on January 21, 2009.

(3) The Preferred Shares, Series 28 were issued on January 30, 2009.

Prior Sales

In the most recently completed financial year, the Bank issued the following securities which are not listed on any exchange or quoted in any marketplace:

Security	Date Issued	Issue Price to Public per $1,000 Principal Amount	Number of Securities Issued
4.94% BNS $1.0 Billion Debentures due 2019	April 15, 2009	$ 999.69	1,000,000
6.65% BNS $1.0 Billion Debentures due 2021	January 22, 2009	$ 999.83	1,000,000
7.802% Scotiabank Tier 1 Trust $650 Million Securities due 2108	May 7, 2009	$ 1,000.00	650,000

For a list of all subordinated indebtedness of the Bank see note 12 to the Bank's consolidated financial statements for its year ended October 31, 2009.

DIRECTORS AND EXECUTIVE OFFICERS OF THE BANK

Directors and Board Committees of the Bank

The following are the Bank's directors as of December 8, 2009. The term of office of each director expires at the close of the Bank's next annual meeting of shareholders following the election of the director. As Dr. Parr-Johnston is no longer eligible to stand for re-election at the next annual meeting of shareholders, she will be retiring from the Board of Directors of the Bank at that meeting but will continue to act as a director until then. The Board intends to appoint Dr. Parr-Johnston as an honorary director following the next annual meeting of shareholders. Information concerning the nominees proposed by management for election as directors at the annual meeting of shareholders will be contained in the Bank's 2009 Management Proxy Circular.

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
Ronald A. Brenneman Calgary, Alberta, Canada (Director since March 28, 2000)	ACRC HRC	Executive Vice Chairman, Suncor Energy Inc., an integrated energy company	76,061/ 34,059
C.J. Chen Singapore (Director since October 30, 1990)	CGPC	Counsel to Rajah & Tann LLP, Transnational Legal Solutions, specializing in corporate and capital markets, securities and trusts	33,624/ 18,607
N. Ashleigh Everett Winnipeg, Manitoba, Canada (Director since October 28, 1997)	CGPC — Chair HRC	President, Corporate Secretary and director of Royal Canadian Securities Limited, the principal businesses of which include Domo Gasoline Corporation (a gasoline retailer) and Royal Canadian Properties Limited (a real estate and property development company)	12,308/ 26,690

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
John C. Kerr, C.M., O.B.C., LL.D. Vancouver, British Columbia, Canada (Director since March 30, 1999)	HRC — Chair ERC	Chairman of Lignum Investments Ltd., a privately-held investment company and managing partner of Lignum Forest Products LLP, a privately-held forest products distribution company, and President of the Vancouver Professional Baseball LLP, owner of the Vancouver Canadians minor league baseball team	11,800/ 33,130
The Honourable Michael J.L. Kirby, O.C. Nepean, Ontario, Canada (Director since March 28, 2000)	ACRC — Chair ERC	Chairman of The Mental Health Commission of Canada and Corporate Director	1,562/ 38,935
John T. Mayberry, C.M. Burlington, Ontario, Canada (Director since March 29, 1994)	ERC Ex-officio member of ACRC, CGPC and HRC	Chairman of the Board and Corporate Director	12,704/ 38,098
Thomas C. O'Neill Toronto, Ontario, Canada (Director since May 26, 2008)	ACRC CGPC	Corporate Director and retired Chair of the Board of PwC Consulting, a management consulting firm	11,300/ 4,343
Dr. Elizabeth Parr-Johnston, C.M., Ph.D., D.Litt. Chester Basin, Nova Scotia, Canada (Director since October 26, 1993)	ERC CGPC	President of Parr Johnston Economic and Policy Consultants	9,620/ 26,671
Alexis E. Rovzar de la Torre New York, New York, U.S.A. (Director since December 31, 2005)	ACRC CGPC	Partner of Counsel, in the Latin America practice group of White & Case LLP, a global law firm	12,388/ 0
Dr. Indira V. Samarasekera, O.C., Ph.D. Edmonton, Alberta, Canada (Director since May 26, 2008)	ACRC HRC	President and Vice-Chancellor of the University of Alberta	1,948/ 3,468
Allan C. Shaw, C.M., LL.D. Halifax, Nova Scotia, Canada (Director since September 30, 1986)	ERC — Chair HRC	Non-Executive Chairman of The Shaw Group Holding Limited, a manufacturer of residential and construction products and a real estate developer	75,253/ 37,278

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
Paul D. Sobey Kings Head, Pictou County, Nova Scotia, Canada (Director since August 31, 1999)	ACRC CGPC	President and Chief Executive Officer of Empire Company Limited, a food distributor, real estate and investment company	20,000/ 33,137
Barbara S. Thomas Belleair, Florida, U.S.A. (Director since September 28, 2004)	ACRC HRC	Corporate Director	10,907/ 0
Richard E. Waugh Toronto, Ontario, Canada (Director since March 25, 2003)	ERC	President and Chief Executive Officer of the Bank	253,521/ 392,159 (DSUs)

Notes:
ACRC — Audit and Conduct Review Committee
CGPC — Corporate Governance and Pension Committee
ERC — Executive and Risk Committee
HRC — Human Resources Committee

The information as to shares owned or over which control or direction is exercised has been furnished by the respective directors, and is as of October 31, 2009.

All directors have held the positions, or other executive positions with the same, predecessor or associated firms, set out in this AIF for the past five years with the exception of Ronald A. Brenneman, who, prior to August 2009, was President and Chief Executive Officer of Petro-Canada, an oil and gas company; The Honourable Michael J.L. Kirby, who, prior to October 2006, was a Member of the Senate of Canada; and Dr. Indira V. Samarasekera who, from 2000 to 2005, was the Vice-President, Research at the University of British Columbia.

Executive Officers of the Bank

The following are the Bank's executive officers, their titles and municipalities of residence in Canada as of December 8, 2009:

Name and Principal Occupation	Municipality of Residence
Richard E. Waugh President and Chief Executive Officer	Toronto, Ontario
Sarabjit S. Marwah Vice-Chairman and Chief Operating Officer	Toronto, Ontario
Sylvia D. Chrominska Group Head, Global Human Resources and Communications	Toronto, Ontario
Christopher J. Hodgson Group Head, Canadian Banking	Toronto, Ontario
Robert H. Pitfield Group Head, International Banking	Toronto, Ontario
Brian J. Porter Group Head, Risk and Treasury	Toronto, Ontario

Name and Principal Occupation	Municipality of Residence
Deborah M. Alexander Executive Vice-President, General Counsel and Secretary	Toronto, Ontario
Alberta G. Cefis Executive Vice-President and Head, Global Transaction Banking	Toronto, Ontario
Wendy G. Hannam Executive Vice-President, Sales and Service, Products and Marketing, International Banking	Toronto, Ontario
Stephen Hart Executive Vice-President, Chief Credit Officer	Oakville, Ontario
Timothy P. Hayward Executive Vice-President and Chief Administrative Officer, International Banking	Oakville, Ontario
Jeffrey C. Heath Executive Vice-President and Group Treasurer	Toronto, Ontario
Robin S. Hibberd Executive Vice-President, Personal Lending and Insurance, Canada	Toronto, Ontario
Dieter W. Jentsch Executive Vice-President, Latin America	Toronto, Ontario
Barbara F. Mason Executive Vice-President, Wealth Management, Canada	Toronto, Ontario
Kimberlee B. McKenzie Executive Vice-President, Information Technology and Solutions	Oakville, Ontario
Anne Marie O'Donovan Executive Vice-President and Chief Administration Officer, Scotia Capital	Oakville, Ontario
Jane Rowe Executive Vice-President, Special Accounts Management and Retail Credit Risk	Toronto, Ontario
Luc A. Vanneste Executive Vice-President and Chief Financial Officer	Toronto, Ontario
Anatol von Hahn Executive Vice-President, Personal and Commercial Banking, Canada	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 Brian J. Porter who, prior to November 1, 2005, was a senior officer of Scotia Capital Inc.; and Anatol von Hahn who, prior to October 29, 2007, was Chief Executive Officer of Scotiabank Inverlat, S.A. and Grupo Financiero Scotiabank Inverlat, S.A. de C.V.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

(a) is, as at the date of this AIF or has been within the last 10 years, a director, chief executive officer or chief financial officer of any company that 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 that was issued:

  (i) while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

  (ii) after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

(b) 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 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

(c) 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 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, and Ms. Thomas who was, until September 2, 2009, a director of Spectrum Brands, Inc., which filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in February 2009.

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

Shareholdings of Management

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

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

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

In the ordinary course of business, the Bank and its subsidiaries may be subject to penalties or sanctions imposed by regulatory authorities from time to time. As the Bank and its subsidiaries are subject to numerous regulatory authorities

around the world, fees, administrative penalties and sanctions may be categorized differently by each regulator. Any such penalties imposed under these categories against the Bank, however, are not material and would include penalties such as late filing fees.

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 N.A., 250 Royall Street, Canton, Massachusetts, 02021, 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, Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5. KPMG LLP is independent of the Bank within the meaning of the Rules of Professional Conduct / Code of Ethics of various Canadian provincial institutes/ordre and within the meaning of the U.S. Securities Act of 1933, as amended, 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 "B" 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), Thomas C. O'Neill, Alexis E. Rovzar de la Torre, Indira V. Samarasekera, Paul D. Sobey and Barbara S. Thomas. John T. Mayberry 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 of the Bank in the absence of such designation.

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

Michael J. L. Kirby (Chair) — Mr. Kirby completed his three year term as Vice-Chair of the Accounting Standards Oversight Council in 2005. He has been a faculty member at both the Business School at the University of Chicago and the Business School at Dalhousie University. He has previously served as Chair of the Standing Senate Committee on Banking, Trade and Commerce (from 1993 to 1997) during which time that committee developed substantive revisions to the *Canada Business Corporations Act* and other Canadian federal business legislation. He has also completed the twelve day Directors Education Course at the Rotman School of Business at the University of Toronto, which is under the auspices of the Institute of Corporate Directors.

Ronald A. Brenneman — Mr. Brenneman has extensive employment experience directly related to the preparation of and supervision of the preparation of financial statements. He is currently the Executive Vice Chairman of Suncor Energy Inc. and previously served as President and Chief Executive Officer of Petro-Canada (2000 to August 2009), 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.

Thomas C. O'Neill — Mr. O'Neill is a corporate director and the retired Chair of the Board of PwC Consulting. He was formerly Chief Executive Officer of PwC Consulting, Chief Operating Officer of PricewaterhouseCoopers LLP, Global, Chief Executive Officer of PricewaterhouseCoopers LLP, Canada and Chair of the Board and Chief Executive Officer of Price Waterhouse Canada. He holds a Bachelor of Commerce degree and is a chartered accountant. In 2008, Mr. O'Neill was awarded a Fellowship by the Institute of Corporate Directors of Canada and in 1988, he was awarded the Fellow Chartered Accountant designation by the Ontario Institute of Chartered Accountants.

Alexis E. Rovzar de la Torre — Mr. Rovzar is a Partner of Counsel in the Latin America practice of White & Case LLP, a global law firm. He has a J.D. and is authorized to practice law in Mexico. Mr. Rovzar sits on the boards of several companies and is a member of the audit committee of other public companies. Mr. Rovzar has also attended in-depth executive education courses addressing audit committee responsibilities and financial reporting, including those offered at Harvard Business School and Goizueta Business School at Emory University, among others.

Indira V. Samarasekera — Dr. Samarasekera is President and Vice-Chancellor of the University of Alberta and an ex officio voting member of all committees of the Board of Governors of the University of Alberta, including the Audit Committee. She is also a former Vice-President, Research at the University of British Columbia (2000-2005). She holds a B.Sc and M.Sc (in mechanical engineering) and a Ph.D in metallurgical engineering.

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 each of The Dial Corporation and Spectrum Brands, Inc. (formerly Rayovac Corporation) and is a current member of the audit committee of 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 57 on page 92 of the MD&A, which is incorporated herein by reference, for disclosure relating to the fees paid by the Bank to the Bank's Shareholders' Auditors, KPMG LLP in each of the last two fiscal years. The nature of these services is described below:

- Audit services generally relate to the statutory audits and review of financial statements, as well as services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.
- Audit-related services include attest services required by regulatory bodies not directly linked to the financial statements, review of controls and procedures related to regulatory reporting, audits of employee benefit plans, other associated entities and mutual funds, special attest services not required by statute or regulation, but requested by a party to a specific transaction and consultation and training on accounting and financial reporting under International Financial Reporting Standards. In 2008, these services included specified procedures with respect to a potential international acquisition.
- Tax services outside of the audit scope represent primarily specified review procedures required by local tax authorities, attestation on tax returns of certain subsidiaries as required by local tax authorities, review to determine compliance with an agreement with the tax authorities and the preparation of personal tax returns of individuals not in financial reporting or accounting roles.
- Other non-audit services are primarily providing industry salary surveys and review of and translation of English language financial statements into other languages.

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 of 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 consolidated financial statements of the Bank for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditors, and one copy of the most recent interim financial statements of the Bank that have been filed, if any, for any period after the end of its most recently completed financial year; (iii) one copy of the Management Proxy Circular of the Bank in respect of its most recent annual meeting of shareholders; and (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or (b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Bank may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Bank.

Additional information relating to the Bank may be found on the SEDAR website at www.sedar.com and on the United States Securities and Exchange Commission's website at www.sec.gov. Additional information, including directors' and officers' compensation, indebtedness and options to purchase securities, principal holders of the Bank's securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular. Additional financial information is provided in the Bank's consolidated financial statements and MD&A for its year ended October 31, 2009. 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

Principal Subsidiaries(1)

As at October 31, 2009 ($ millions)	Principal office	Carrying value of shares
Canadian		
BNS Capital Trust	Toronto, Ontario	$ 121
BNS Investment Inc.	Toronto, Ontario	$ 10,701
Montreal Trust Company of Canada	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
BNS Investments Inc.	Toronto, Ontario	
Dundee Bank of Canada	Toronto, Ontario	$ 799
Maple Trust Company	Toronto, Ontario	$ 210
National Trustco Inc.	Toronto, Ontario	$ 558
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Stratford, Ontario	
RoyNat Inc.	Toronto, Ontario	$ 14
Scotia Capital Inc.	Toronto, Ontario	$ 300
1548489 Ontario Limited	Toronto, Ontario	$ 516
Scotia iTrade Corp.	Toronto, Ontario	
Scotia Cassels Investment Counsel Limited	Toronto, Ontario	$ 40
Scotia Dealer Advantage Inc.	Burnaby, British Columbia	$ 54
Scotia Insurance Agency Inc.	Toronto, Ontario	$ —
Scotia Life Insurance Company	Toronto, Ontario	$ 71
Scotia Mortgage Corporation	Toronto, Ontario	$ 304
Scotia Securities Inc.	Toronto, Ontario	$ 538
Scotiabank Capital Trust(2)	Toronto, Ontario	$ 22
Scotiabank Subordinated Notes Trust(2)	Toronto, Ontario	$ 3
Scotiabank Tier 1 Trust(2)	Toronto, Ontario	$ 6
International		
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	$ 191
The Bank of Nova Scotia International Limited	Nassau, Bahamas	$ 9,354
Scotiabank Caribbean Treasury Limited	Nassau, Bahamas	
BNS International (Barbados) Limited	Warrens, Barbados	
Grupo BNS de Costa Rica, S.A.	San Jose, Costa Rica	
The Bank of Nova Scotia Asia Limited	Singapore	
The Bank of Nova Scotia Trust Company (Bahamas) Ltd.	Nassau, Bahamas	
Scotiabank & Trust (Cayman) Ltd.	Grand Cayman, Cayman Islands	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotiabank (Bahamas) Limited	Nassau, Bahamas	
Scotiabank (British Virgin Islands) Limited	Road Town, Tortola, B.V.I.	
Scotiabank (Hong Kong) Limited	Hong Kong, China	
Scotiabank (Ireland) Limited	Dublin, Ireland	
Scotia Group Jamaica Limited (71.8%)	Kingston, Jamaica	$ 410
The Bank of Nova Scotia Jamaica Limited	Kingston, Jamaica	
Scotia DBG Investments Limited (77.0%)	Kingston, Jamaica	
Grupo Financiero Scotiabank Inverlat, S.A. de C.V. (97.3%)	Mexico, D.F., Mexico	$ 2,157
Nova Scotia Inversiones Limitada	Santiago, Chile	$ 1,838
Scotiabank Sud Americano, S.A. (99.7%)	Santiago, Chile	
Banco del Desarrollo (99.55%)	Santiago, Chile	
Scotia Capital (USA) Inc.	New York, New York	(3)
Scotia Holdings (US) Inc.	Houston, Texas	(4)
The Bank of Nova Scotia Trust Company of New York	New York, New York	
Scotiabanc Inc.	Houston, Texas	
Scotia International Limited	Nassau, Bahamas	$ 703
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	$ 231
Scotiabank El Salvador, S.A. (99.5%)	San Salvador, El Salvador	$ 402
Scotiabank Europe plc	London, England	$ 2,059
Scotiabank Peru S.A.A. (97.7%)	Lima, Peru	$ 1,550
Scotiabank Trinidad and Tobago Limited (50.9%)	Port of Spain, Trinidad	$ 201

(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.

Schedule B

CHARTER

THE BANK OF NOVA SCOTIA

AUDIT AND CONDUCT REVIEW COMMITTEE OF THE BOARD

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

AUDIT

A. Mandate

1. To perform such duties as may be required by:
   - the *Bank Act* (the "Act") and the regulations thereunder; and
   - other applicable legislation and regulations including those of the Ontario Securities Commission ("OSC") and the Canadian Securities Administrators (the "CSA"), the Toronto Stock Exchange ("TSX"), the New York Stock Exchange ("NYSE"), the Securities and Exchange Commission ("SEC") and the *Sarbanes-Oxley Act, 2002,*

   as more fully described under the heading **"Duties"** below.
2. To assist the Board of Directors (the Board) in fulfilling its oversight responsibilities for:
   - the integrity of the Bank's consolidated financial statements and related quarterly results press releases;
   - the Bank's compliance with legal and regulatory requirements;
   - the system of internal control, including internal control over financial reporting and disclosure controls and procedures ("internal controls");
   - the external auditor's qualifications and independence;
   - the performance of the Bank's internal audit function and independent auditors; and
   - the preparation of a committee report for inclusion in the Bank's proxy circular.
3. To perform such other duties as may from time to time be assigned to the Committee by the Board;
4. To act as the audit committee for any federally chartered Canadian financial institution beneficially owned by the Bank as determined by the Board.

B. Authority

The Committee has authority to:

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

C. Duties

The Committee shall:

Financial Information

- review the quarterly and annual consolidated financial statements of the Bank prior to approval by the Board and disclosure to the public; review should include discussion with management and the external auditor of significant issues, including significant accounting policies, regarding the financial results, accounting principles, practices and management estimates and judgments;
- review the quarterly and annual Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") prior to review and approval by the Board;
- review any material proposed changes in accounting standards and securities policies or regulation relevant to the Bank's consolidated financial statements;
- be satisfied that adequate procedures are in place for the review of the Bank's public disclosure of all consolidated financial statements, related quarterly results press releases and financial information extracted or derived from the Bank's consolidated financial statements and periodically assess the adequacy of these procedures;
- review material financial press releases prior to public disclosure;
- 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 and approve the Bank's Anti-Money Laundering / Anti-Terrorist Financing Policy and the Mandate of the Bank's Chief Anti-Money Laundering Officer, and any significant changes thereto;
    - review the quarterly report on litigation matters; and
    - review any plans to remediate any deficiencies identified.
- review the annual letter of certification from the Chief Executive Officer on the Bank's compliance with the Guidelines for Business Conduct;
- review investments and transactions that could adversely affect the well-being of the Bank brought to its attention by the external auditor or by any officer of the Bank;
- meet with representatives of the Office of the Superintendent of Financial Institutions Canada ("OSFI") to discuss OSFI's supervisory results;
- meet with Bank management to review and discuss the Bank's response to OSFI's recommendations and suggestions pursuant to their supervisory activities; and
- review such returns as specified by OSFI.

Internal Controls

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

- receive and review reports from management and internal audit on the design and operating effectiveness of internal controls and any significant control breakdowns, including any reports concerning significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information, and any fraud involving management or other employees who have a significant role in the Bank's internal controls;
- receive and review the external auditor's audit report on the Bank's internal controls over financial reporting as of the Bank's year end; and
- require management to establish procedures and review and approve the procedures established for processing complaints regarding accounting, internal accounting controls or auditing matters, including confidential, anonymous submissions from employees, as part of the Bank's Financial Reporting Whistleblower Program.

Internal Audit

- review and approve the annual audit plan, annual budgets and resources of the Chief Internal Auditor;
- review 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 and approve periodically the Charter for the Audit Department and the mandate for the Chief Internal Auditor;
- review the annual performance appraisal 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 reports directly to the Committee;
- recommend to the Board the retention or termination of the Bank's external auditor, subject to shareholder ratification;
- review the annual audit plan and letter(s) of engagement;
- at least annually review the report of the external auditor;
- review and evaluate the external auditor's qualifications, performance and independence, including a review and evaluation of the lead audit partner;
- review and recommend to the Board the annual fee for the audit of the Bank's consolidated financial statements;
- review and pre-approve in accordance with established pre-approval policy, all services to be provided by the external auditor, including audit and audit related services and permitted tax and non-audit services;
- review external auditor services pre-approved by the delegate of the Committee;
- review annually the total fees paid to the external auditor by required categories;
- at least annually, obtain and review a report from the external auditor describing:
    - the firm's internal quality-control procedures;
    - any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
    - to assess all relationships between the external auditor and the Bank that pertain to independence;
- review the rotation plan for partners on the engagement;
- meet with the external auditor and with management to discuss the quarterly and the annual consolidated financial statements including the Bank's disclosure under MD&A;
- review with the external auditor any audit problems or difficulties and management's response;
- discuss with the external auditor the OSFI returns, investments or transactions reviewed by the

Committee pursuant to the Compliance responsibilities in this charter;

- 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;
- provide consent, where appropriate, for a director's service on more than three audit committees of public company boards;
- annually, approve a core plan of reports to be presented to the Committee on matters within its mandate; and
- institute and oversee special investigations as needed.

CONDUCT REVIEW

D. Mandate

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

E. Duties

1. Establish criteria for determining whether the value of transactions with related parties of the Bank is nominal or immaterial to the Bank;
2. Approve the terms and conditions of:
   - loans, other than margin loans, to senior officers of the Bank on terms and conditions more favourable to the senior officers than those offered to the public;
   - loans to spouses of senior officers of the Bank on the security of mortgages of the principal residences of such spouses on terms and conditions more favourable than those offered to the public;
3. Approve the practice of the Bank making financial services, other than loans or guarantees, available to senior officers of the Bank or to spouses, or children who are less than 18 years of age of senior officers of the Bank, on terms and conditions more favourable than those offered to the public, provided the financial services are offered by the Bank to its employees on those favourable terms and conditions;
4. Require Bank management to establish procedures to enable the Bank to verify that its transactions with related parties of the Bank comply with Part XI of the *Bank Act* and to review those procedures and their effectiveness. These procedures should, among other things, enable management to verify that:
   - all related party transactions are on terms and conditions at least as favourable to the Bank as market terms and conditions, other than transactions referred to in clauses 2 and 3 above; and
   - loans to full-time senior officers, other than margin loans and mortgages on their principal residences, do not exceed the greater of twice their annual salaries and $100,000; and
   - aggregate loans or guarantees to, and investments in the securities of any related party (subject to certain exceptions) do not exceed 2% of the Bank's regulatory capital unless the approval of 2/3 of the Board has been obtained; and
   - aggregate loans or guarantees to, and investments in the securities of all related parties (subject to certain exceptions) do not exceed 50% of the Bank's regulatory capital;
5. Review the practices of the Bank to identify any transactions with related parties of the Bank that may have a material effect on the stability or solvency of the Bank;
6. Monitor the procedures established by the Board to resolve conflicts of interest, including techniques for the identification of potential conflict situations, and to restrict the use of confidential information; and
7. Monitor the procedures established by the Board to provide disclosure to customers of the Bank of information that is required to be disclosed by the *Bank Act*, and for dealing with and reporting complaints made by customers of the Bank who have requested or received products or services in Canada and to satisfy itself that these procedures are being adhered to by the Bank.

COMMITTEE OPERATIONS

F. Reporting

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

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

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

G. Composition

Structure

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

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

Independence

No member of the Committee may be a current or former officer or employee of the Bank or of any of its subsidiaries or affiliates. No member may be a person who is affiliated with the Bank or any of its subsidiaries or affiliates or be related or non-independent as determined by the Board for the purposes of the NYSE Corporate Governance Rules or Multilateral Instrument 52-110. No member may hold 5% or more of the voting shares of the Bank.

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

Appointment of Committee Members

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

Vacancies

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

Appointment and Qualifications of Committee Chair

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

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

H. Meetings

Calling of Meetings

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

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

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

Written resolutions in lieu of a meeting are not permitted.

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

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

Notice of Meetings

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

Notice to the Internal Auditor and External Auditor

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

Frequency

The Committee shall meet at least quarterly.

Quorum

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

Secretary and Minutes

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

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

This Charter was last reviewed and approved by the Board on June 23, 2009.

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Forward-looking statements

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

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. Do not unduly rely on forward-looking statements, as a number of important factors, many of which are beyond our control, could cause actual results to differ materially from the estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; significant market volatility and interruptions; the failure of third parties to comply with their obligations to us and our affiliates; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; the effect of changes to our credit ratings; amendments to, and interpretations of, risk-based capital guidelines and reporting instructions and liquidity regulatory guidance; operational and reputational risks; the risk that the Bank's risk management models may not take into account all relevant factors; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; the Bank's ability to expand existing distribution channels and to develop and realize revenues from new distribution channels; the Bank's ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital markets activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; fraud by internal or external parties, including the use of new technologies in unprecedented ways to defraud the Bank or its customers; consolidation in the Canadian financial services sector; competition, both from new entrants and established competitors; judicial and regulatory proceedings; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. For more information, see the discussion starting on page 62 of the Bank's 2009 Annual Report.

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

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

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

December 8, 2009

g **T1** 2009 financial highlights

As at and for the years ended October 31	**2009**	2008	2007	2006	2005
Operating results ($ millions)					
Net interest income	**8,328**	7,574	7,098	6,408	5,871
Net interest income (TEB (1))	**8,616**	7,990	7,629	6,848	6,197
Total revenue	**14,457**	11,876	12,490	11,208	10,400
Total revenue (TEB (1))	**14,745**	12,292	13,021	11,648	10,726
Provision for credit losses	**1,744**	630	270	216	230
Non-interest expenses	**7,919**	7,296	6,994	6,443	6,043
Provision for income taxes	**1,133**	691	1,063	872	847
Provision for income taxes (TEB (1))	**1,421**	1,107	1,594	1,312	1,173
Net income	**3,547**	3,140	4,045	3,579	3,209
Net income available to common shareholders	**3,361**	3,033	3,994	3,549	3,184
Operating performance					
Basic earnings per share ($)	**3.32**	3.07	4.04	3.59	3.19
Diluted earnings per share ($)	**3.31**	3.05	4.01	3.55	3.15
Return on equity (1) (%)	**16.7**	16.7	22.0	22.1	20.9
Productivity ratio (%) (TEB (1))	**53.7**	59.4	53.7	55.3	56.3
Net interest margin on total average assets (%) (TEB (1))	**1.68**	1.75	1.89	1.95	2.00
Balance sheet information ($ millions)					
Cash resources and securities	**160,572**	125,353	118,030	118,878	93,964
Loans and acceptances	**275,885**	300,649	238,685	212,329	178,003
Total assets	**496,516**	507,625	411,510	379,006	314,025
Deposits	**350,419**	346,580	288,458	263,914	217,445
Preferred shares	**3,710**	2,860	1,635	600	600
Common shareholders' equity	**21,062**	18,782	17,169	16,947	15,482
Assets under administration	**215,097**	203,147	195,095	191,869	171,392
Assets under management	**41,602**	36,745	31,403	27,843	26,630
Capital measures (2)					
Tier 1 capital ratio (%)	**10.7**	9.3	9.3	10.2	11.1
Total capital ratio (%)	**12.9**	11.1	10.5	11.7	13.2
Common equity to risk-weighted assets (%)	**9.7**	8.3	7.8	8.8	9.7
Tangible common equity to risk-weighted assets (1)(3) (%)	**8.2**	6.6	7.4	8.3	9.3
Risk-weighted assets ($ millions)	**221,656**	250,591	218,337	197,010	162,799
Credit quality					
Net impaired loans (4) ($ millions)	**2,563**	1,191	601	570	681
General allowance for credit losses ($ millions)	**1,450**	1,323	1,298	1,307	1,330
Sectoral allowance ($ millions)	**44**	—	—	—	—
Net impaired loans as a % of loans and acceptances (2)	**0.93**	0.40	0.25	0.27	0.38
Specific provision for credit losses as a % of average loans and acceptances	**0.54**	0.24	0.13	0.14	0.16
Common share information					
Share price ($)					
High	**49.19**	54.00	54.73	49.80	44.22
Low	**23.99**	35.25	46.70	41.55	36.41
Close	**45.25**	40.19	53.48	49.30	42.99
Shares outstanding (millions)					
Average – Basic	**1,013**	987	989	988	998
Average – Diluted	**1,016**	993	997	1,001	1,012
End of period	**1,025**	992	984	990	990
Dividends per share ($)	**1.96**	1.92	1.74	1.50	1.32
Dividend yield (%) (5)	**5.4**	4.3	3.4	3.3	3.3
Market capitalization ($ millions)	**46,379**	39,865	52,612	48,783	42,568
Book value per common share ($)	**20.55**	18.94	17.45	17.13	15.64
Market value to book value multiple	**2.2**	2.1	3.1	2.9	2.7
Price to earnings multiple	**13.6**	13.1	13.2	13.7	13.5
Other information					
Employees	**67,802**	69,049	58,113	54,199	46,631
Branches and offices	**2,686**	2,672	2,331	2,191	1,959

(1) Non-GAAP measure. Refer to the non-GAAP measures on page 27.

(2) Effective November 1, 2007, regulatory capital, risk weighted assets and capital ratios are determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.

(3) Certain comparative amounts have been restated to reflect a new definition of tangible common equity. Refer to non-GAAP measures on page 27.

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

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

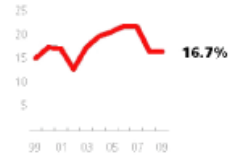
C1 Earnings per share (diluted)



C2 Common share price



C3 Return on equity



Financial results

Scotiabank's net income in 2009 was $3,547 million, an increase of $407 million or 13% from last year. Earnings per share (diluted) were $3.31 versus $3.05 in 2008. Return on equity was 16.7%, as shown in Chart 3.

The Bank's earnings continued to be affected by the volatility in global financial markets and weakness in global credit quality. Notwithstanding the challenges, each of the Bank's three business lines had record earnings in 2009.

Total revenues were $14,745 million (on a taxable equivalent basis), a strong increase of $2,453 million or 20% from 2008. Net interest income (TEB) increased $626 million or 8% in 2009 primarily from the favourable change in fair value of financial instruments used for asset/liability management and the positive impact of foreign currency translation. Also contributing to the increase was strong asset growth across all divisions, acquisitions and wider spreads in the corporate loan portfolio. Partially offsetting was an increase in liquidity costs and a decline in tax-exempt dividends.

Other income was a record $6,129 million in 2009, up $1,827 million or 42% from last year. The increase reflects the significant charges taken in 2008 and the positive impact of foreign currency translation, which were partly offset by valuation adjustments taken in 2009. There were record trading revenues in Scotia Capital, and higher revenues from credit fees, underwriting, securitization and acquisitions. Partly offsetting, retail brokerage fee revenues were weaker, reflecting a slow down in customer activity.

Non-interest expenses rose 9% over last year, including a negative impact from foreign currency translation. The increase was driven primarily by acquisitions and expenditures to support business growth as well as higher performance based compensation. The productivity ratio of 53.7% was an improvement from last year's 59.4%.

The provision for credit losses was $1,744 million, a significant increase of $1,114 million from last year, driven primarily by global economic conditions. Higher provisions were evenly distributed across all business lines. In addition, the general allowance was increased, and a sectoral allowance was established to reflect the deterioration in the automotive industry sector.

The overall tax rate was 23.6% in 2009 up from 17.5% last year due largely to lower tax-exempt dividends and higher adjustments to future tax assets.

The Bank's capital position remains strong with increases in internally generated capital, and proactive issuance of capital, particularly preferred shares and subordinated debentures. The Tier 1 capital ratio, at 10.7%, and Total capital ratio at 12.9% remained well above the regulatory minimums and strong by international standards.

Items of note

The Bank incurred charges of $586 million ($400 million after-tax) in 2009 or approximately $0.39 per share as shown in Table 2. This compares to charges of $1,221 million ($822 million after-tax) last year. The charges this year were from valuation adjustments while the charges in 2008 included valuation adjustments, trading counterparty losses and mark-to-market losses relating to interest rate derivatives used for asset/liability management (ALM) hedging.

In 2008, many of the Bank's structured credit investments required valuation adjustments to writedown to fair value, with a resultant charge to the income statement.

There was a relatively small negative net valuation adjustment of $11 million in 2009 on collateralized debt and loan obligations (CDOs/CLOs). Writedowns of available-for-sale (AFS) securities were $575 million ($392 million after-tax) in 2009, as a result of the ongoing weakness in the economy and the decline in equity and bond markets.

Outlook

The global economy is transitioning from recession to recovery, although the return to positive growth is far from robust and highly uneven among countries, regions, and sectors. Many of the large developed nations are recording modest to moderate growth.

A number of positive factors should continue to support a gradual strengthening of global growth including government incentives to stimulate the economy, very low borrowing costs, a rebound in commodities and emerging markets and a gradual revival in consumer demand.

Given this economic backdrop, the Bank expects continued growth in 2010 with solid contributions from each of its business lines.

Shareholder returns

The Bank delivered a strong total shareholder return of 18.8% in 2009, as shown in Table 3.

The compound annual return on the Bank's shares over the past five years averaged 7% and 14% over the past 10 years. This exceeded the compound annual return of the S&P/TSX Composite Index of 6% over the past 10 years, as shown in Chart 4. The Bank remains focused on achieving sustainable, long-term earnings growth and a high return on equity.

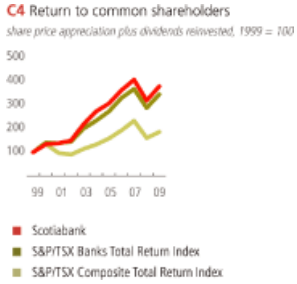
The Bank maintained its quarterly dividend in 2009. For the year, dividends per share totaled $1.96, an increase of 2% from 2008.

The Bank's ROE was 16.7%. The 2009 ROE was negatively impacted by changes in accounting policy adopted during the year. Certain debt securities were reclassified to loans and carried at amortized cost. As a result, the Bank recorded a net increase of $595 million to accumulated other comprehensive income. The net impact on ROE as a result of this change was a decrease of approximately 50 basis points.

g **T2** Items of note

For the years ended October 31 ($ millions, except EPS)	2009		2008	
	Pre-tax	After-tax	Pre-tax	After-tax
Valuation adjustments				
CDOs/CLOs	**$ (11)**	**$ (8)**	$ (516)	$ (342)
SIVs/ABCP	**—**	**—**	(107)	(72)
Other AFS securities	**(575)**	**(392)**	(217)	(150)
Trading counterparty losses				
Lehman Brothers	**—**	**—**	(171)	(117)
Other	**—**	**—**	(48)	(32)
ALM hedging	**—**	**—**	(162)	(109)
	$ (586)	**$ (400)**	$ (1,221)	$ (822)
EPS impact		**$ (0.39)**		$ (0.82)
By Business Line:				
International Banking	**$ (65)**	**$ (36)**	$ (147)	$ (128)
Scotia Capital	**(62)**	**(46)**	(632)	(382)
Other	**(459)**	**(318)**	(442)	(312)
Total	**$ (586)**	**$ (400)**	$ (1,221)	$ (822)
By Income Statement Line:				
Securities gains/(losses)	**$ (595)**		$ (783)	
Trading revenues	**—**		(219)	
Net interest income	**—**		(162)	
Other/Other income	**9**		(57)	
Total	**$ (586)**		$ (1,221)	

C4 Return to common shareholders



Impact of foreign currency translation

The movement in whole year foreign currency average exchange rates had a positive impact on the Bank's earnings in 2009. On average, the Canadian dollar depreciated 12% relative to the U.S. dollar, 9% against the Peruvian sol and against many other currencies in which the Bank conducts its business. The Canadian dollar strengthened against the Mexican peso (11%) and the Jamaican dollar. Changes in the average exchange rates affected net income, as shown in Table 4.

Impact of acquisitions

The Bank made a number of acquisitions in 2008 and 2009 which contributed to growth in Canada and in its International operations. The impact on selected income statement categories is shown in Table 5.

g **T3** Total shareholder return

For the years ended October 31	2009	2008	2007	2006	2005	5-yr CAGR(1)
Closing market price per common share ($)	**45.25**	40.19	53.48	49.30	42.99	**2.7%**
Dividends paid ($ per share)	**1.96**	1.92	1.74	1.50	1.32	**12.2%**
Dividends paid (%)	**4.9**	3.6	3.5	3.5	3.3	
Increase (decrease) in share price (%)	**12.6**	(24.9)	8.5	14.7	8.6	
Total annual shareholder return (%) (2)	**18.8**	(21.6)	12.2	18.4	12.1	**6.8%**

(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.

g **T4** Impact of foreign currency translation

Average exchange rate	2009	2008	2007
U.S. dollar/Canadian dollar	**0.855**	0.974	0.909
Mexican peso/Canadian dollar	**11.585**	10.473	9.968

Impact on income ($ millions except EPS)	2009 vs. 2008	2008 vs. 2007	2007 vs. 2006
Net interest income	**$ 235**	$ (221)	$ (119)
Other income	**111**	(80)	(80)
Non-interest expenses	**(55)**	146	77
Other items (net of tax)	**(84)**	51	40
Net income	**$ 207**	$ (104)	$ (82)
Earnings per share (diluted)	**$ 0.20**	$ (0.10)	$ (0.08)
Impact by business line ($ millions)			
International Banking	**$ 82**	$ (83)	$ (37)
Scotia Capital	**$ 103**	$ (7)	$ (19)
Canadian Banking	**$ 16**	$ (21)	$ (4)
Other	**$ 6**	$ 7	$ (22)

g **T5** Impact of acquisitions (1)

($ millions)	2009	2008
Net interest income	**$ 629**	$ 276
Other income	**352**	99
Non-interest expenses	**(455)**	(202)
Other items (net of tax)	**(210)**	(46)
Net income	**$ 316**	$ 127

(1) Includes acquisitions and investments in associated corporations made in 2008 and 2009, excluding funding costs.

Non-GAAP measures

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

Taxable equivalent basis

The Bank analyzes net interest income and total revenues on a taxable equivalent basis (TEB). This methodology grosses up tax-exempt income earned on certain securities reported in net interest income to an equivalent before tax basis. A corresponding increase is made to the provision for income taxes; hence, there is no impact on net income. Management believes that this basis for measurement provides a uniform comparability of net interest income arising from both taxable and non-taxable sources and facilitates a consistent basis of measurement. While other banks also use TEB, their methodology may not be comparable to the Bank's. The TEB gross-up to net interest income and to the provision for income taxes for 2009 was $288 million versus $416 million in the prior year.

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

Productivity ratio (TEB)

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

Net interest margin on total average assets (TEB)

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

Operating leverage

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

Return on equity

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

Economic equity and Return on economic equity

For internal reporting purposes, the Bank attributes capital to its business lines based on their risk profile and uses a methodology that considers credit, market, operational and other risks inherent in each business line. The amount of risk capital attributed is commonly referred to as economic equity. Return on equity for the business lines is based on the economic equity attributed.

Tangible common equity to risk-weighted assets

Tangible common equity to risk-weighted assets is an important financial measure for rating agencies and the investing community. Tangible common equity is total common shareholders' equity plus non-controlling interest in subsidiaries, less goodwill and unamortized intangible assets. Tangible common equity is presented as a percentage of risk-weighted assets.

Regulatory capital ratios, such as Tier 1 and Total Capital ratios, have standardized meanings as defined by The Office of the Superintendent of Financial Institutions Canada (OSFI).

Group Financial Performance

C5 Net interest income by business line[1]

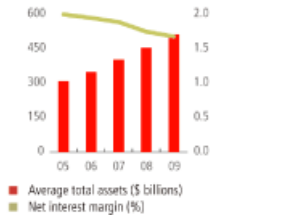
Taxable equivalent basis, $ millions



(1) Excludes Other segment

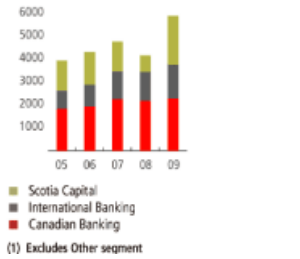
C6 Average total assets and net interest margin

Taxable equivalent basis, $ millions



C7 Other income by business line[1]

Taxable equivalent basis, $ millions



(1) Excludes Other segment

C8 Many sources of other income



Total revenue

Total revenue (on a taxable equivalent basis) was $14,745 million in 2009, a substantial increase of $2,453 million or 20% from the prior year, including a $346 million positive impact from foreign currency translation. The increase was primarily from significantly stronger revenues in many categories of other income including trading revenues, credit fees, investment banking revenues and securitization revenues. Interest income rose year over year primarily from the positive impact of changes in fair value of financial instruments used for asset/liability management purposes, the positive impact of foreign currency translation and higher corporate lending spreads.

Canadian Banking revenues grew 9% over last year, primarily in net interest income from volume growth and a slightly wider margin. Other income included revenue growth from the investment in CI Financial.

International Banking revenues rose 14%, about half of which was from acquisitions and a favourable impact of foreign currency translation. Revenues rose in Asia from asset growth, wider spreads and charges due to valuation adjustments in 2008. In the Caribbean, higher volumes were the main contributor.

In Scotia Capital, revenues almost doubled, rising 95% from 2008 with record revenues in fixed income, institutional equity and precious metals operations. There were also strong revenues in foreign exchange. The corporate bank recorded higher revenues due to average loan growth, wider spreads and higher credit fees.

Revenues in the Other segment were lower, due to lower net interest income, partly offset by higher securitization gains.

Net interest income

Net interest income (on a taxable equivalent basis) was $8,616 million in 2009, up $626 million or 8% over last year. This increase includes the positive impact of $283 million from changes in the fair value of financial instruments used for asset/liability management, $235 million from foreign currency translation and wider corporate lending spreads, partly offset by lower tax-exempt dividend income of $128 million. Excluding these items, underlying interest income was up a modest $69 million or 1%, as higher spreads in most businesses were partly offset by increased liquidity costs and higher interest costs on subordinated debentures.

The growth in average assets of $58 billion or 13% was mainly in non-earning assets ($16 billion or 37%), personal lending ($14 billion or 31%), and business and government lending ($13 billion or 13%).

Canadian Banking's average assets grew by 10% or $17 billion, primarily in mortgages and personal credit lines. There was also strong growth in personal auto loans. Growth in average assets also reflected the investment in CI Financial and the acquisition of E*TRADE Canada.

International Banking's average asset growth was $10 billion or 13%. Growth occurred in both personal and business lending in Peru and the Caribbean, as well as business lending in Asia.

Scotia Capital's average earning assets grew by $6 billion or 5% compared to last year, primarily in U.S. corporate lending, with more moderate growth in Europe and Canada.

The Bank's net interest margin was 1.68%, down from 1.75% last year. The decline was due primarily to lower tax-exempt dividend income, higher volumes of non-earning assets, higher liquidity costs and interest on subordinated debentures. As well, the lower Canadian interest rate environment resulted in increased customer preference for the lower yielding variable rate mortgages.

These factors were partially offset by a favourable change in the fair value of financial instruments used for asset/liability management purposes, wider spreads in U.S. corporate lending and a wider margin in Canadian

Banking. International Banking's margins improved slightly year over year, particularly in business lending in Asia and in Peru.

Outlook

The Bank's net interest income is expected to increase in 2010, driven by moderate asset growth and a wider margin, which should more than offset any unfavourable impact from a stronger Canadian dollar.

The net interest margin is expected to benefit from wider whole year spreads on Canadian floating rate assets and the corporate lending portfolio.

Other income

Other income was a record $6,129 million in 2009, a strong increase of $1,827 million or 42% from 2008, including a positive impact of $111 million from foreign currency translation. This increase primarily reflected significantly stronger trading revenues, higher credit fees, securitizations and investment banking revenues. Other income in 2009 was reduced by certain valuation adjustments which totaled $586 million, versus $1,059 million in 2008 (which included valuation adjustments and a charge related to Lehman Brothers).

Card revenues were a record $424 million in 2009, an increase of 7% from last year, entirely in membership fees. International card revenues increased by 14% year over year due to the full year impact of the acquisition in Peru, as well as growth throughout the Caribbean.

Revenues from deposit and payment services earned from retail, commercial and corporate customers grew by 5% to $905 million. Canadian Banking revenues were 4% higher than the previous year and International Banking revenues rose 10%, mainly in Peru and Chile.

Mutual fund fees were a record $371 million, an increase of 17% from 2008, entirely attributable to the investment in CI Financial. Excluding CI Financial, fees fell from a combination of lower average balances due to market conditions and the shift out of longer term funds which earn higher management fees. In addition, DundeeWealth revenues in 2009 included a writedown on certain debt instruments. Fees in International Banking were flat year over year.

g **T6** Net interest income and margin (1)

($ millions, except percentage amounts)	2009	2008	2007	2006	2005
Average assets	**513,149**	455,539	403,475	350,709	309,374
Net interest income (1)	**8,616**	7,990	7,629	6,848	6,197
Net interest margin	**1.68%**	1.75%	1.89%	1.95%	2.00%

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 27.

g **T7** Average balance sheet(1) and interest margin

Taxable equivalent basis(2) For the fiscal years ($ billions)	2009 Average balance	2009 Average rate	2008 Average balance	2008 Average rate
Assets				
Deposits with banks	**$ 37.7**	**1.28%**	$ 29.2	3.71%
Securities	**104.4**	**4.19**	95.9	5.24
Securities purchased under resale agreements	**18.4**	**2.13**	19.7	4.00
Loans:				
Residential mortgages	**107.6**	**4.39**	108.9	5.50
Personal and credit cards	**59.4**	**7.08**	45.2	8.68
Business and government	**112.7**	**4.48**	100.0	5.92
	279.7	**5.00**	254.1	6.23
Total earning assets	**440.2**	**4.37**	398.9	5.70
Customers' liability under acceptances	**12.0**	**—**	12.2	—
Other assets	**60.9**	**—**	44.4	—
Total assets	**$ 513.1**	**3.75%**	$ 455.5	4.99%
Liabilities and shareholders' equity				
Deposits:				
Personal	**$ 122.5**	**2.74%**	$ 108.9	3.32%
Business and government	**202.8**	**2.32**	182.4	4.06
Banks	**24.1**	**1.19**	30.8	3.63
	349.4	**2.39**	322.1	3.77
Obligations related to securities sold under repurchase agreements	**40.8**	**1.66**	30.6	4.23
Subordinated debentures	**5.5**	**5.18**	3.1	5.40
Capital instrument liabilities	**0.5**	**7.36**	0.5	7.36
Other interest-bearing liabilities	**28.8**	**4.41**	28.1	3.97
Total interest-bearing liabilities	**425.0**	**2.50**	384.4	3.84
Other liabilities including acceptances	**64.4**	**—**	50.7	—
Shareholders' equity	**23.7**	**—**	20.4	—
Total liabilities and equity	**$ 513.1**	**2.07%**	$ 455.5	3.24%
Net interest margin		**1.68%**		1.75%

(1) Average of daily balances.

(2) Refer to the non-GAAP measures on page 27.

g **T8** Trading revenue

Taxable equivalent basis[1] For the fiscal years ($ millions)	2009	2008	2007	2006	2005
Reported in:					
Other income	**$ 1,057**	$ 188	$ 450	$ 637	$ 594
Net interest income	**423**	417	519	394	340
Total trading revenue	**$ 1,480**	$ 605	$ 969	$ 1,031	$ 934
By trading products:					
Securities trading	**$ 572**	$ (27)	$ 65	$ 145	$ 175
Foreign exchange and precious metals trading	**534**	384	323	301	295
Derivatives trading	**374**	248	581	585	464
Total trading revenue	**$ 1,480**	$ 605	$ 969	$ 1,031	$ 934
% of total revenues (net interest income plus other income)	**10%**	5%	7%	9%	9%

(1) Refer to the non-GAAP measures on page 27.

Revenues from investment management, brokerage and trust services were $728 million, a decline of $32 million or 4% from last year. ScotiaMcLeod full service brokerage revenues fell as a result of lower fee based revenues, mutual fund trailer fees and brokerage trading commissions. This was partly offset by the full year impact of the acquisition of E*TRADE Canada.

After four years of relatively steady performance, credit fees rose a substantial 49% year over year to $866 million. Acceptance fees were significantly higher in both Scotia Capital and Canadian Banking as average acceptance fee rates reached record levels. Fees related to syndication, letters of guarantee, and standby loans were also higher in Scotia Capital.

Trading revenues of $1,057 million rose a significant $869 million over last year. Foreign Exchange trading revenues rose $62 million with strong growth in International Banking (primarily Mexico and Chile) more than offsetting a decline in Scotia Capital (from record levels in 2008). Precious metals were a record $249 million, an increase of $89 million or 55% reflecting the appreciation and volatility of gold prices. Gains on trading securities rose a substantial $476 million, primarily in Scotia Capital fixed income and institutional equity businesses, as well as in Chile and Mexico. Derivatives trading results improved by $242 million year over year as 2008 included the charge related to Lehman Brothers.

Investment Banking revenues were a record $993 million, a 39% increase from last year. New issue fees rebounded from weak market activity in 2008. Non-trading foreign exchange revenues rose $59 million or 19% year over year, primarily in International Banking.

There was a net loss on securities of $412 million, compared to a loss of $374 million in 2008. In 2009, there were writedowns and valuation adjustments on available-for-sale securities of $586 million as a result of the ongoing uncertainty in the economy and volatility in equity and bond markets. In addition, an equity investment was written down in International Banking. In 2008, writedowns and valuation adjustments were $783 million.

Securitization revenues of $409 million were $279 million higher than 2008 due to an increased level of participation in the Canada Mortgage Bond and Insured Mortgage Purchase Programs.

Other revenues rose $61 million or 8% from the previous year as 2009 included the full year impact of revenues from acquisitions.

Outlook

The Bank expects increases in several revenue categories in 2010, including mutual funds and retail brokerage, along with modest growth in retail and commercial revenues. In addition, there should be fewer securities writedowns. Trading and investment banking revenues are likely to be somewhat lower compared to the record performance in 2009.

g T9 Other income

For the fiscal years ($ millions)	2009	2008	2007	2006	2005	2009 versus 2008
Card revenues	**$ 424**	$ 397	$ 366	$ 307	$ 251	**7%**
Deposit and payment services						
Deposit services	**707**	675	652	622	581	**5**
Other payment services	**198**	187	165	144	120	**6**
	905	862	817	766	701	**5**
Mutual funds	**371**	317	296	241	193	**17**
Investment management, brokerage and trust services						
Retail brokerage	**507**	538	553	481	427	**(6)**
Investment management and custody	**94**	96	87	70	62	**(2)**
Personal and corporate trust	**127**	126	120	115	111	**1**
	728	760	760	666	600	**(4)**
Credit fees						
Commitment and other credit fees	**658**	436	403	414	436	**51**
Acceptance fees	**208**	143	127	116	106	**45**
	866	579	530	530	542	**49**
Trading revenues	**1,057**	188	450	637	594	**100+**
Underwriting fees and other commissions	**620**	402	498	453	493	**54**
Foreign exchange, other than trading	**373**	314	239	206	187	**19**
Net gain (loss) on securities, other than trading	**(412)**	(374)	488	371	414	**(10)**
Securitizaton revenues	**409**	130	34	43	79	**100+**
Other	**788**	727	914	580	475	**8**
Total other income	**$ 6,129**	$ 4,302	$ 5,392	$ 4,800	$ 4,529	**42%**

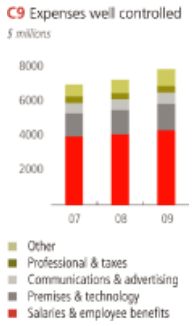
Percentage increase (decrease) over previous year	**42%**	(20)%	12%	6%	5%

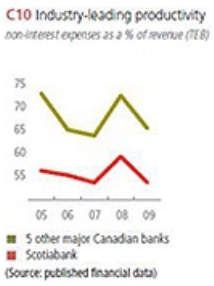
g **T10** Non-interest expenses and productivity

For the fiscal years ($ millions)	2009	2008	2007	2006	2005	2009 versus 2008
Salaries and employee benefits						
Salaries	**$ 2,676**	$ 2,549	$ 2,315	$ 2,100	$ 1,963	**5%**
Performance-based compensation	**1,035**	913	1,017	936	880	**13**
Stock-based compensation	**79**	89	133	164	140	**(12)**
Pensions and other employee benefits	**554**	558	518	568	505	**(1)**
	4,344	4,109	3,983	3,768	3,488	**6**
Premises and technology						
Net premises rent	**243**	217	197	181	176	**12**
Premises repairs and maintenance	**87**	83	75	60	50	**5**
Property taxes	**72**	65	65	61	61	**12**
Computer equipment, software and data processing	**687**	650	603	549	519	**6**
Depreciation(1)	**234**	208	203	184	171	**12**
Other premises costs	**220**	194	192	171	169	**13**
	1,543	1,417	1,335	1,206	1,146	**9**
Communications						
Telecommunications	**80**	79	73	68	64	**1**
Stationery, postage and courier	**266**	247	227	208	191	**8**
	346	326	300	276	255	**6**
Advertising and business development						
Advertising and promotion	**202**	206	193	126	139	**(2)**
Travel and business development	**105**	114	118	106	93	**(8)**
	307	320	311	232	232	**(4)**
Professional	**216**	227	227	174	186	**(5)**
Business and capital taxes						
Business taxes	**129**	90	107	98	91	**44**
Capital taxes	**48**	26	36	35	56	**86**
	177	116	143	133	147	**53**
Other						
Employee training	**26**	43	53	47	45	**(40)**
Amortization of goodwill and other intangibles(1)	**96**	83	64	46	31	**16**
Other	**864**	655	578	561	513	**32**
	986	781	695	654	589	**26**
Total non-interest expenses	**$ 7,919**	$ 7,296	$ 6,994	$ 6,443	$ 6,043	**9%**
Productivity ratio (TEB)(2)	**53.7%**	59.4%	53.7%	55.3%	56.3%	

(1) Comparative amounts have been reclassified to conform with the new accounting standard for goodwill and intangible assets. Refer to Note 1 in the Consolidated Financial Statements for further details.

(2) Taxable equivalent basis. Refer to the non-GAAP measures on page 27.







Non-interest expenses

Non-interest expenses were $7,919 million in 2009, an increase of $623 million or 9% from last year. Approximately $253 million of this growth was due to acquisitions. Excluding this impact and the negative effect of foreign currency translation of $55 million, non-interest expenses were $315 million or 4% higher than 2008 levels.

Salaries and employee benefits were $4,344 million in 2009, up $235 million or 6% from last year. Excluding the impact of acquisitions and foreign currency translation, salaries increased 1%, reflecting growth initiatives and new branches, including five in Canada and 29 in Mexico. Performance-driven compensation was $112 million above last year, due to the Bank's stronger financial performance in 2009, as well as record revenues in a number of units in Scotia Capital.

Premises and technology expenses were $1,543 million in 2009, an increase of $126 million or 9% from last year. Higher premises costs reflected both acquisitions and new branches. Excluding the impact of acquisitions and the negative effect of foreign currency translation, technology expenses increased by $21 million or 3%, as a result of higher processing costs from increased business volumes.

Communications expenses of $346 million rose $20 million or 6% year over year, mainly from the impact of acquisitions and business initiatives.

Advertising and business development expenses were $307 million in 2009, a decline of $13 million or 4% from last year, as ongoing cost containment efforts over the past year were offset in part by growth initiatives to acquire new customers.

Professional fees were down $11 million or 5% to $216 million, from lower project-related consulting and professional fees.

Business and capital taxes were $177 million, $61 million or 53% higher than last year, reflecting capital issued in 2009 and growth in retained earnings.

Other expenses were $986 million in 2009, up $205 million or 26% from last year. The increase was due largely to the impact of acquisitions, and higher loyalty reward point costs, legal provisions and securitization expenses.

Productivity ratio was 53.7% for 2009, a significant improvement from 59.4% in 2008. This reflected strong revenue growth of 20%, partly from the charges taken last year, compared to a smaller increase in expenses of 9%.

Outlook

Expense control remains a key strength of the Bank. While expenses will increase in 2010, reflecting the full year impact of acquisitions and investments in new products and services, operating leverage is expected to remain positive.

Taxes

The provision for income taxes recorded in income was $1,133 million in 2009, an increase of 64% compared to last year. The Bank's overall effective tax rate for the year was 23.6%, up from 17.5% last year. The increase in the effective rate was due primarily to lower tax-exempt dividend income and higher adjustments to future tax assets to reflect reductions in the Canadian tax rate.

Outlook

The Bank's consolidated effective tax rate is expected to be in the range of 22% to 26% for 2010. As a result of the tax rate reductions introduced by the province of Ontario on November 16, 2009, it is anticipated that a charge of approximately $60 million against the future tax asset will be recorded in the first quarter of 2010.

Non-controlling interest

The deduction for non-controlling interest in subsidiaries was $114 million in 2009, a decrease of $5 million from 2008, due primarily to the full year impact of the increase in the Bank's ownership of Scotiabank Peru.

Credit quality

Provision for credit losses

The provision for credit losses was $1,744 million in 2009, up from $630 million last year.

The specific provision for credit losses in Canadian Banking was $695 million in 2009, an increase of $296 million over last year, primarily attributable to higher retail provisions in the indirect automotive and unsecured lending portfolios.

The specific provision for credit losses in International Banking was $577 million in 2009, an increase of $341 million over last year. Retail portfolios across all regions were adversely affected by the global economic downturn. The full year impact of new acquisitions also contributed to increased provisions for credit losses. The international commercial portfolio held up relatively well notwithstanding the challenging economic environment.

Scotia Capital had specific provisions of $301 million in 2009, primarily in Canada and the U.S., versus net recoveries of $5 million in 2008.

The general allowance for credit losses was $1,450 million as at October 31, 2009, an increase of $127 million over last year.

In addition, a sectoral allowance with a remaining balance of $44 million as at October 31, 2009, was established for the automotive industry. The bulk of this allowance related to Scotia Capital and the remainder to Canadian Banking.

Impaired loans

Gross impaired loans were $3,939 million as at October 31, 2009, compared to $2,494 million last year, reflecting the more challenging economic environment.

Impaired loans in Canadian Banking increased $410 million, due primarily to the impact of the weaker Canadian economy on the retail portfolios.

In International Banking, impaired loans rose $658 million, due primarily to retail and commercial portfolios in the Caribbean and Chile and, to a lesser extent, in Mexico.

Scotia Capital's impaired loans increased $377 million due primarily to several accounts in the U.S. and Canada.

Net impaired loans, after deducting the specific allowance for credit losses, were $2,563 million as at October 31, 2009, an increase of $1,372 million from a year ago.

As shown in Chart 13, net impaired loans as a percentage of loans and acceptances were 0.93% as at October 31, 2009, compared to 0.40% a year ago.

n **T11** Impaired loans by business line

As at October 31 ($ millions)	2009 Net	2009 Allowance for credit losses	2009 Gross	Gross impaired loans 2008	2007	2006	2005
Canadian Banking							
Retail	**$ 508**	**$ (361)**	**$ 869**	$ 523	$ 391	$ 374	$ 311
Commercial	**138**	**(164)**	**302**	238	197	263	201
	646	**(525)**	**1,171**	761	588	637	512
International Banking							
Mexico	**95**	**(143)**	**238**	216	188	213	190
Caribbean and Central America	**744**	**(187)**	**931**	560	397	375	369
Latin America	**572**	**(443)**	**1,015**	801	285	357	101
Asia and Europe	**77**	**(6)**	**83**	32	27	35	72
	1,488	**(779)**	**2,267**	1,609	897	980	732
Scotia Capital							
Canada	**73**	**(14)**	**87**	—	18	18	25
United States	**354**	**(54)**	**408**	107	11	119	331
Europe	**2**	**(4)**	**6**	17	30	116	220
	429	**(72)**	**501**	124	59	253	576
Gross impaired loans			**$ 3,939**	$ 2,494	$ 1,544	$ 1,870	$ 1,820
Specific allowance for credit losses		**$ (1,376)**		$ (1,303)	$ (943)	$ (1,300)	$ (1,139)
Net impaired loans(1)	**$ 2,563**			$ 1,191	$ 601	$ 570	$ 681
General allowance for credit losses	**(1,450)**			(1,323)	(1,298)	(1,307)	(1,330)
Sectoral allowance	**(44)**			—	—	—	—
Net impaired loans after general and sectoral allowances	**$ 1,069**			$ (132)	$ (697)	$ (737)	$ (649)
Gross impaired loans as a % of total allowance for credit losses and shareholders' equity	**14.3%**			10.3%	7.3%	9.3%	9.8%
Net impaired loans(1) as a % of loans and acceptances	**0.93%**			0.40%	0.25%	0.27%	0.38%
Specific allowance for credit losses as a % of gross impaired loans	**35%**			52%	61%	70%	63%

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

n **T12** Specific provisions for credit losses by business line

For the fiscal years ($ millions)	2009	2008	2007	2006	2005
Canadian Banking					
Retail	**$ 544**	$ 316	$ 274	$ 229	$ 225
Commercial	**151**	83	21	50	49
	695	399	295	279	274
International Banking					
Mexico	**185**	141	68	27	34
Caribbean and Central America	**150**	89	48	15	23
Latin America	**202**	—	(11)	14	15
Asia and Europe	**40**	6	(4)	4	(2)
	577	236	101	60	70
Scotia Capital					
Canada	**109**	(11)	—	(6)	(12)
United States	**192**	16	(91)	(41)	(93)
Europe	**—**	(10)	(10)	(16)	34
	301	(5)	(101)	(63)	(71)
Other	**—**	—	—	—	2
Total	**$ 1,573**	$ 630	$ 295	$ 276	$ 275

n **T13** Provisions for credit losses as a percentage of average loans and acceptances

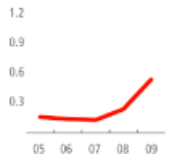
For the fiscal years (%)	2009	2008	2007	2006	2005
Canadian Banking					

Retail	**0.33%**	0.22%	0.22%	0.20%	0.22%
Commercial	**0.60**	0.31	0.09	0.22	0.23
	0.37	0.23	0.19	0.20	0.22
International Banking	**0.90**	0.44	0.25	0.18	0.25
Scotia Capital(1)	**0.61**	(0.01)	(0.33)	(0.25)	(0.31)
Weighted subtotal — specific provisions	**0.54**	0.24	0.13	0.14	0.16
General and sectoral provisions	**0.06**	—	(0.01)	(0.03)	(0.02)
Weighted total	**0.60%**	0.24%	0.12%	0.11%	0.13%

(1) Corporate Banking only.

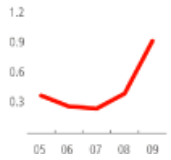
C12 Credit losses

specific provisions as a % of average loans & acceptances



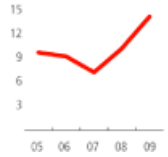
C13 Net impaired loan ratio

as a % of loans & acceptances, as at October 31



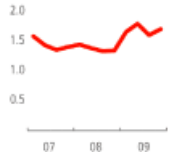
C14 Gross impaired loans and acceptances

as a % of equity & allowances for credit losses



C15 Low delinquency in Canadian retail portfolio

delinquent loans as a % of total loans



Portfolio review

Canadian Banking

The overall credit quality of the consumer portfolio in Canada declined year over year as a result of the weakening economy. Reportable delinquency increased 36 basis points to 1.71%. The provision for credit losses in the Canadian retail portfolio was $544 million, up $228 million or 72% from last year. The provision for credit losses as a percentage of average loans was 0.33%, up from 0.22% last year.

While gross impaired loans in the retail portfolio increased by 66% ($346 million) from last year, portfolio quality continued to benefit from high secured lending, with 92% of total retail loans being secured by an underlying asset such as a house or an automobile. This high level of secured lending reflects the growth in Scotia Total Equity Plan, where all products, including lines of credit and credit cards, are secured by residential real estate. Currently, 65% of the ScotiaLine line of credit and ScotiaLine Visa portfolios are secured.

The credit quality of the Canadian commercial loan portfolio declined in 2009. Gross impaired loans increased by $64 million to $302 million, while specific provisions for credit losses rose by $68 million from last year, attributable primarily to several commercial and merchant banking accounts.

International Banking

Retail credit quality declined compared to last year as a result of weakening economic conditions across Latin America and the Caribbean. Gross impaired loans increased by $298 million to $1,131 million, and provisions for credit losses rose to $523 million from $319 million last year. Total reported delinquency increased 224 basis points year over year to 8.66%, primarily related to mortgages and personal loan portfolios in Chile and the Caribbean region. Changes in asset mix from acquisitions also impacted delinquency rates.

In commercial banking, gross impaired loans were $1,136 million, an increase of $360 million over the prior year as a result of less favourable economic conditions. Increases in gross impaired loans were concentrated in the Caribbean, Chile and Pacific regions. Provisions for credit losses were $54 million in 2009 versus net provision reversals of $83 million in 2008. The increase was attributable to higher levels of provisions in the Pacific and Caribbean regions, and to lower levels of reversals and recoveries in Mexico and Peru.

Scotia Capital

The increase in specific provisions for Scotia Capital was attributable to higher levels of provisions in the U.S. and Canadian portfolios. The prior year also benefited from higher levels of provision reversals and recoveries. Gross impaired loans in Scotia Capital's U.S. portfolio increased by $301 million year over year to $408 million, due primarily to accounts in the financial services and real estate industries. Gross impaired loans increased in Canada from nil to $87 million, but declined in Europe by $11 million to $6 million.

Risk diversification

The Bank's exposures to various countries and types of borrowers are well diversified. (See Charts 16 and 17; Tables 38 and 43 on pages 83, and 85). Chart 16 shows loans and acceptances by geography. Ontario represents the largest Canadian exposure, at 36% of the total. Outside

of Canada, the United States and Latin America each have 8% of the total exposure.

Chart 17 shows loans and acceptances by type of borrower. Excluding loans to households, the largest industry exposures were in financial services, 6.8%; real estate, 4.2%; and wholesale and retail, 3.9%.

The Bank actively monitors industry concentrations. The North American automotive industry, forestry and media sectors are being closely managed. As is the case with all industry exposures, the Bank continues to closely follow developing trends and takes additional steps to mitigate risk as warranted.

Risk mitigation

To mitigate exposures in its performing corporate portfolios, the Bank uses loan sales and credit derivatives. In 2009, loan sales totaled $500 million, compared to $185 million in 2008. The largest volume of loan sales in 2009 related to loans in the chemical industry.

At October 31, 2009, credit derivatives used to mitigate exposures in the portfolios totaled $236 million (notional amount), compared to $942 million at October 31, 2008. The industries with significant protection purchased include the power and financial services sectors.

The current annualized cost (excluding mark-to-market adjustments) of the credit derivatives outstanding at October 31, 2009, used to mitigate exposures in the loan portfolios was $0.6 million ($2.4 million in 2008).

Outlook

Overall, the provision for credit losses is expected to remain high but with some downward trend in the second half of 2010. The Bank's retail credit portfolios are expected to stabilize and benefit from a gradual economic recovery and modest reductions in unemployment levels. Provisions in the corporate and commercial credit portfolios are expected to improve.

Fourth quarter review

Net income was $902 million in the fourth quarter, an increase of $587 million from the same quarter last year, but $29 million below last quarter. The increase mainly reflected $642 million of after-tax charges taken last year related to certain trading activities and valuation adjustments, as well as the impact of new acquisitions. This was partly offset by the negative impact of foreign currency translation, and an increase in the provision for credit losses.

Total revenue (on a taxable equivalent basis) was $3,808 million this quarter, an increase of $1,222 million from last year, notwithstanding a negative foreign currency translation impact of $109 million. Quarter over quarter, total revenue declined $35 million or 1%, entirely from a negative impact of foreign currency translation of $91 million.

Net interest income (on a taxable equivalent basis) was $2,172 million in the fourth quarter, an increase of $136 million over the same quarter of last year, but a decrease of $72 million from last quarter. The impact of foreign exchange translation was negative $75 million over the same quarter last year, and negative $64 million compared to the third quarter. The increase in net interest income from the same quarter last year reflected growth in average assets of $14 billion or 3%, due mainly to solid growth in retail lending in Canadian Banking.

The Bank's net interest margin was 1.74% in the fourth quarter, an increase of 6 basis points from last year due to the positive impact of the change in fair value of financial instruments used for asset / liability management purposes and wider spreads in the corporate loan portfolio.

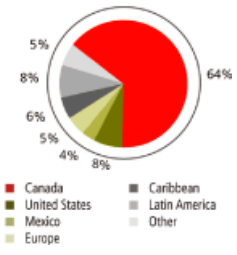
The Bank's net interest margin narrowed by 2 basis points from last quarter as the unfavourable impact of the change in the fair value of financial instruments more than offset lower volumes of non-earning assets.

Other income was $1,636 million in the fourth quarter, $1,086 million above last year, notwithstanding a negative foreign currency translation impact of $34 million. The increase was due mainly to the charges taken last year which totaled $796 million. In addition, there were significant increases in trading revenues, credit fees, underwriting fees and mutual fund revenues.

Quarter over quarter, other income was up $37 million or 2%, notwithstanding a negative foreign currency translation impact of $27 million. This was mainly from higher net gains on securities, growth in mutual fund revenues, and higher credit and underwriting fees in Scotia Capital. These were partially offset by lower securitization revenues and a decline in trading revenues from the record levels in the previous quarter.

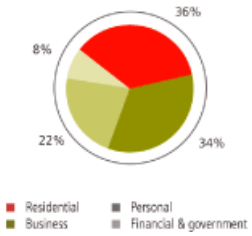
C16 Well diversified in Canada and internationally...

loans & acceptances, September 2009



C17 ...and in household and business lending

loans & acceptances, September 2009



The provision for credit losses was $420 million this quarter, comprised of $424 million in specific provisions and a $4 million reduction in the automotive sectoral allowance, which was reclassified to specific provisions. The total provision was up $213 million from the same period last year, but down $134 million from last quarter. Year-over-year provisions rose across all business lines as a result of global economic conditions. Quarter-over-quarter provisions were down due mainly to an increase of $100 million in the general allowance in the prior quarter, as well as lower provisions in Scotia Capital.

The provision for credit losses was $190 million in Canadian Banking, comprised of $192 million in specific provisions and a $2 million reduction in the automotive sectoral allowance reclassified to specific provisions. The total provision was up from $107 million in the same quarter last year and from $169 million in the previous quarter. Both increases were due mainly to higher retail provisions in the unsecured lending portfolios related primarily to credit cards and, to a lesser extent, the indirect automotive portfolio.

International Banking's provision for credit losses was $167 million in the fourth quarter, compared to $90 million in the same period last year, and $179 million last quarter. Commercial provisions were up over the same period last year due partially to substantial levels of reversals in Mexico and Peru in the prior year. Increased provisions from last year also reflect higher retail provisions related to the acquisition in Peru. The decrease in provisions from last quarter was attributable to the retail portfolios, where there was modest improvement in loss trends across most regions. However, commercial provisions increased from last quarter, primarily in Asia, Peru, and the Caribbean.

Scotia Capital's provision for credit losses was $63 million in the fourth quarter, comprised of $65 million in specific provisions and a $2 million reduction in the automotive sectoral allowance reclassified to specific provisions. The total provision was up from $10 million in the fourth quarter of last year, but down from $106 million in the previous quarter. The new provisions in this quarter were related primarily to several accounts in the U.S. and, to a lesser extent, in Canada.

Total net impaired loans, after deducting the allowance for specific credit losses, were $2,563 million as at October 31, 2009, an increase of $54 million from last quarter.

The general allowance for credit losses was $1,450 million as at October 31, 2009, unchanged from last quarter. The sectoral allowance for the automotive industry was $44 million, down $4 million from last quarter.

Non-interest expenses were $2,064 million in the fourth quarter, an increase of $120 million or 6% from the same quarter last year. Recent acquisitions accounted for approximately $23 million of this growth. Excluding the impact of these acquisitions and the positive effect of foreign currency translation of $59 million, the year-over-year growth was due primarily to higher performance-driven and stock-based compensation, capital taxes, and loyalty reward point costs.

Quarter over quarter, non-interest expenses were up $105 million or 5%. The increase was primarily from higher performance-driven and stock-based compensation, advertising expenses driven by growth initiatives, and technology and professional fees from higher project spending. Partly offsetting these items was the favourable impact of foreign currency translation.

The Bank's effective tax rate was 25.7%, compared to 0.6% reported for the same period last year and 24.0% last quarter. The low tax rate a year ago was due primarily to the pre-tax charges taken in that quarter related to certain trading activities and valuation adjustments, which were in higher tax jurisdictions. The increase from last quarter was due to lower income in lower tax rate jurisdictions.

Summary of quarterly results

The Bank experienced four quarters of solid performance during a time of significant volatility and weakening credit quality. The significant market disruption that occurred at the end of 2008 continued to affect results in the beginning of this year, with improvements shown as the year progressed. The Canadian dollar strengthened in the latter part of the year, however, for the first three quarters it was significantly weaker than in 2008. This had an overall positive impact on whole year results.

Net interest income rose in the second and third quarter, but fell in the final quarter of the year. Average volumes increased significantly in the first quarter, but declined during the rest of the year.

The Bank's net interest margin widened significantly during the first nine months of the year, but was relatively flat in the final quarter. Canadian Banking's margin widened consistently during the year, International's margins were impacted by changes in the fair value of financial instruments during the year, falling in the first quarter but widening in the next two quarters. Spreads in Scotia Capital's corporate lending portfolios widened throughout the year as business was repriced.

Other income rose in each quarter of 2009, ending the year with three consecutive record quarters. Financial markets were volatile during the year which resulted in opportunities for fixed income and equity trading. The level of gains on securities was impacted by the timing of writedowns on available-for-sale securities and changes in the fair value of financial instruments. Securitization revenues varied depending on opportunities to take advantage of favourable funding terms.

The trend in loan losses reflected the current economic challenges, with signs of moderation in the last quarter of the year. Non-interest expenses were well contained in 2009, with the final quarter reflecting finalization of performance-driven compensation, growth initiatives and project spending.

The effective tax rate ranged between 18% and 26% reflecting different levels of income earned in lower tax jurisdictions and changes in the valuation of future tax assets.

An eight quarter trend in net income and other selected information is provided on page 93.

Group Financial Condition

Balance sheet

Assets

The Bank's total assets at October 31, 2009 were $497 billion, down $11 billion from last year. Excluding the negative impact of foreign currency translation, total assets rose $6 billion. A decline in loans and derivative instrument assets were partially offset by an increase in liquid assets, including cash resources and securities.

Securities

Total securities increased by $29 billion from last year, including a negative impact of foreign currency translation of $3 billion.

Available-for-sale securities rose by $17 billion due primarily to higher holdings of CMHC insured mortgage-backed securities and Canadian government debt securities, partially offset by a decrease in other debt securities. During the year, the Bank's holdings of Canadian NHA mortgage-backed securities increased by $15 billion primarily from the conversion of insured mortgages into mortgage-backed securities. Other debt securities decreased due to the reclassification of $8.5 billion of debt securities to loans as a result of recent amendments to accounting standards (refer to Changes in accounting policies on page 81).

Trading securities increased by $10 billion from higher holdings of Canadian government debt securities.

Equity accounted investments increased by $2 billion due primarily to the acquisition of a significant interest in CI Financial and an additional interest in Thanachart Bank.

As at October 31, 2009, the unrealized gain on available-for-sale securities, after related derivative and other hedge amounts, was $828 million, compared to a $1,320 million unrealized loss at the prior year end. The change arose from increases in the values of both debt and equity securities as the result of improvements in capital markets, writedowns taken on securities during the year and the impact of the reclassification of certain debt securities to loans. The latter resulted in $595 million of unrealized losses being reversed upon reclassification of certain debt securities to loans effective November 1, 2008.

Loans

The Bank's loan portfolio decreased by $22 billion from last year, including a negative impact from foreign currency translation of $8 billion.

In retail lending, residential mortgages decreased by $13 billion as growth in the mortgage portfolio was more than offset by the conversion of insured mortgages into mortgage-backed securities and the securitization of an additional $10 billion of mortgages into the Canadian government's Canada Mortgage Bond (CMB) and Insured Mortgage Purchase Program. Personal loans rose $10 billion, due primarily to growth in Canadian Banking of $5 billion, as well as the reclassification of certain debt securities to loans.

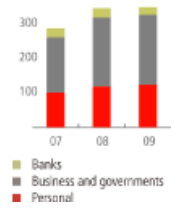
C18 Loan portfolio

loans & acceptances, $ billions



C19 Deposits

$ billions



n **T14** Condensed balance sheet

As at October 31 ($ billions)	2009	2008	2007	2006	2005
Assets					
Cash resources	**$ 43.3**	$ 37.3	$ 29.2	$ 23.4	$ 20.5
Securities	**117.3**	88.0	88.8	95.5	73.5
Securities purchased under resale agreements	**17.8**	19.5	22.5	25.7	20.6
Loans	**266.3**	288.7	227.2	202.8	170.4
Other	**51.8**	74.1	43.8	31.6	29.0
Total assets	**$ 496.5**	$ 507.6	$ 411.5	$ 379.0	$ 314.0
Liabilities and shareholders' equity					
Deposits	**$ 350.4**	$ 346.6	$ 288.5	$ 263.9	$ 217.4

Obligations related to securities sold under repurchase agreements	**36.6**	36.5	28.1	33.5	26.0
Other liabilities	**78.3**	98.0	73.9	61.0	51.1
Subordinated debentures	**5.9**	4.4	1.7	2.3	2.6
Capital instrument liabilities	**0.5**	0.5	0.5	0.8	0.8
Total liabilities	**471.7**	486.0	392.7	361.5	297.9
Shareholders' equity	**24.8**	21.6	18.8	17.5	16.1
Total liabilities and shareholders' equity	**$ 496.5**	$ 507.6	$ 411.5	$ 379.0	$ 314.0

Business and government loans decreased by $19 billion from last year, or $12 billion excluding the impact of foreign currency translation. Loans in Scotia Capital fell $9 billion, primarily in the U.S. as a result of the negative impact of foreign currency translation and paydowns of significant bridge loans as debt markets improved. Loans in Canadian Banking decreased by $5 billion as some customers reduced borrowing levels or sought alternate forms of financing. Loans in International Banking declined by $5 billion, mainly in Asia.

Liabilities

Total liabilities were $472 billion as at October 31, 2009, down $14 billion from last year. Excluding the negative impact of foreign currency translation, total liabilities rose $3 billion. Decreases in derivative instrument liabilities and other liabilities, primarily cash collateral received from customers, were partially offset by growth in deposits and obligations related to securities sold short.

Deposits

Total deposits increased by $4 billion, including the negative impact of foreign currency translation of $13 billion. Personal deposits rose by $5 billion, due primarily to growth in high interest savings accounts in Canada. Business and government deposits grew by $3 billion offset by declines in deposits by banks of $4 billion.

Shareholders' equity

Total shareholders' equity increased by $3 billion in 2009. This resulted primarily from internal capital generation of $1,371 million, and the issuance of $1,117 million common shares and $850 million preferred shares (of which $500 million common shares and $250 million non-cumulative preferred shares were issued in relation to the investment in CI Financial). These were partially offset by an increase of $204 million in accumulated other comprehensive loss. The latter arose from a $1.7 billion increase in unrealized foreign exchange losses from the strengthening of the Canadian dollar, partially offset by an improvement in the unrealized gains on available-for-sale securities, including a $595 million reduction in accumulated other comprehensive losses related to the reclassification of certain debt securities to loans.

Outlook

For 2010, the Bank expects moderate asset growth in all business lines, reflecting continued slow economic growth globally. Growth in foreign currency assets is expected to be negatively impacted by foreign currency translation as the Canadian dollar is expected to continue to strengthen.

Capital management

Overview

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

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

Governance and oversight

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

Risk appetite

The risk appetite framework that establishes enterprise wide risk tolerances in addition to capital targets is detailed in the Risk Management section "Risk appetite framework" on page 62. The framework encompasses medium to long-term targets with respect to regulatory capital thresholds, earnings, economic capital and other risk-based parameters. These targets ensure the Bank achieves the following overall objectives: exceed regulatory and internal capital targets, manage capital levels commensurate with the risk profile of the Bank, maintain strong credit ratings and provide the Bank's shareholders with acceptable returns.

Managing and monitoring capital

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

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

The Bank has a comprehensive risk management framework to ensure that the risks taken while conducting its business activities are consistent with its risk appetite, and that there is an

appropriate balance between risk and return. Refer to the Risk Management section on page 62 for further discussions on the Bank's risk management framework.

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

Capital generation

Capital is generated through net earnings after dividend payments (See Chart 23). This is augmented by issuance of common shares (mainly through the Bank's Dividend and Share Purchase Plan), preferred shares, Tier 1 innovative instruments and Tier 2 subordinated debentures, as required to meet growth plans and other strategic initiatives.

Capital utilization

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

Regulatory capital

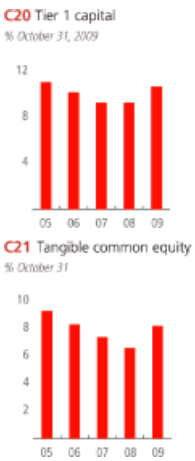
Capital adequacy for Canadian banks is regulated by OSFI, consistent with international standards set by the Bank for International Settlements (BIS).

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

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

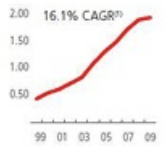
Regulatory capital and risk-weighted assets are determined in accordance with the capital framework based on the International Convergence of Capital Measurement and Capital Standards, commonly known as Basel II. Under this framework, the computation of risk-weighted assets aligns risk weight parameters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

There are two main methods for computing credit risk: the standardized approach, which uses prescribed risk weights; and internal ratings-based approaches, which allow the use of a bank's internal models to calculate some, or all, of the key inputs into the regulatory capital calculation. Users of the Advanced Internal Ratings Based Approach (AIRB) are required to demonstrate that they have sophisticated risk management systems for the calculation of credit risk regulatory capital and obtain OSFI approval for the use of this approach. The Bank applies the AIRB approach for material Canadian, U.S. and European portfolios and uses the Standardized Approach for the other portfolios. The Bank is assessing the



C22 Dividend growth

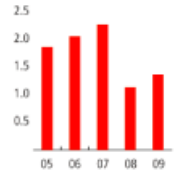
dollars per share



(1) Compound annual growth rate (CAGR)

C23 Internal capital generated

$ billions, for years ended October 31



n T15 Regulatory capital (1)

As at October 31 ($ millions)	Basel II 2009	Basel II 2008	Basel I 2007	Basel I 2006	Basel I 2005
Tier 1 capital					
Common shareholders' equity (2)	**$20,945**	$20,197	$16,477	$16,947	$15,482
Innovative capital instruments	**3,400**	2,750	2,750	3,000	2,250
Non-cumulative preferred shares	**3,710**	2,860	1,635	600	600
Non-controlling interest in subsidiaries	**554**	502	497	435	306
Less: Goodwill	**(2,908)**	(2,273)	(1,134)	(873)	(498)
Other capital items (3)	**(2,051)**	(773)	—	—	—
	23,650	23,263	20,225	20,109	18,140
Tier 2 capital					
Subordinated debentures (4)	**5,833**	4,227	1,452	2,046	2,420
Trust subordinated notes	**1,000**	1,000	1,000	—	—
Eligible amounts of general allowance (5)	**570**	534	1,298	1,307	1,330
Net unrealized equity gains (6)	**6**	—	298	—	—
	7,409	5,761	4,048	3,353	3,750
Less: other capital deductions (7)	**(2,471)**	(1,177)	(1,292)	(476)	(358)
Total capital	**$28,588**	$27,847	$22,981	$22,986	$21,532
Risk-weighted assets (1)($ billions)					
Credit risk	**187.8**	214.5	208.3	192.0	159.5
Market risk	**11.4**	15.5	10.0	5.0	3.3
Operational risk	**22.4**	20.6	—	—	—
Total risk-weighted assets	**$ 221.6**	$ 250.6	$ 218.3	$ 197.0	$ 162.8
Capital ratios (1)					
Tier 1 capital ratio	**10.7%**	9.3%	9.3%	10.2%	11.1%
Total capital ratio	**12.9%**	11.1%	10.5%	11.7%	13.2%
Assets to capital multiple	**16.6**	18.0	18.2	17.1	15.1

(1) Effective November 1, 2007, regulatory capital, risk weighted assets and capital ratios are determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules. (2) Beginning in 2007, balance excludes unrealized gains and losses on available-for-sale securities and cash flow hedges.

(3) Comprised of net after-tax gains on sale of securitized assets, net after-tax losses on available-for-sale equity securities, 50/50 deduction of certain investments in associated corporations and other items. (4) Net of amortization.

(5) Under Basel I, the general allowance is included in Tier 2 capital up to a maximum of 0.875% of risk-weighted assets as per OSFI guidelines. Under Basel II, eligible general allowances in excess of expected losses for advanced internal ratings based exposures and the allocated portion for standardized exposures can be included in capital, subject to certain limitations.

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

(7) Comprised of investments in insurance entities, 50/50 deduction of certain investments in associated corporations and other items.

n T16 Changes in regulatory capital (1)

For the fiscal years ($ millions)	Basel II 2009	Basel II 2008	Basel I 2007	Basel I 2006	Basel I 2005
Total capital, beginning of year	**$ 27,847**	$ 22,981	$22,986	$21,532	$20,864
Internally generated capital					
Net income	**3,547**	3,140	4,045	3,579	3,209
Preferred and common share dividends	**(2,176)**	(2,003)	(1,771)	(1,513)	(1,342)
	1,371	1,137	2,274	2,066	1,867
External financing					
Subordinated debentures (2)	**1,606**	2,775	(594)	(374)	(73)
Trust subordinated notes	**–**	—	1,000	—	—
Preferred shares	**850**	1,225	1,035	—	300
Innovative capital instruments	**650**	—	(250)	750	—
Common shares and contributed surplus	**1,117**	263	141	108	88
Purchase of shares premium on redemption	**–**	(37)	(586)	(324)	(973)
	4,223	4,226	746	160	(658)
Other					
Net after-tax unrealized equity gains/losses (3)	**201**	(493)	298	—	—
Net unrealized foreign exchange translation gains (losses)	**(1,736)**	2,368	(2,228)	(360)	(178)

Non-controlling interest in subsidiaries	**52**	5	62	129	26
Other(4)	**(3,370)**	(2,377)	(1,157)	(541)	(389)
	(4,853)	(497)	(3,025)	(772)	(541)
Total capital generated (used)	**741**	4,866	(5)	1,454	668
Total capital, end of year	**$ 28,588**	$ 27,847	$22,981	$22,986	$21,532

(1) Effective November 1, 2007, regulatory capital determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules. (2) Net of amortization.

(3) Net unrealized gains/losses (after-tax) on available-for-sale equity securities.

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

remaining portfolios for application of AIRB in the future.

The Bank uses both internal models and standardized approaches to calculate market risk capital. In July 2009, the Basel Committee revised the market risk framework, for implementation in fiscal 2011 for the Bank, in response to concerns arising from significant losses in bank trading books given recent volatile market conditions. One of the key changes is the introduction of a Stressed Value at Risk (VaR) measure that will lead to an increase in market risk capital. BIS has also introduced an Incremental Risk Charge, to capture default and migration risk in debt portfolios over a one year period, at a 99.9% confidence level. In addition, securitized products in the trading book will receive the same capital charge as in the banking book, unless they are in a correlation trading portfolio that meets a number of conditions. The Bank is in the process of assessing the impact of these changes and preparing to make the required changes in systems, processes and capital levels.

The Bank uses the Standardized Approach to calculate the operational risk capital requirements.

Since the Basel II capital framework has only been in effect since November 1, 2007, capital floors are in place for those applying the AIRB approach. These minimum capital floors are based on a percentage of capital required under the previous capital framework (Basel I).

Tier 1 capital

Tier 1 capital rose to $23.7 billion, an increase of $0.4 billion over last year primarily as a result of the following:

- growth in retained earnings of $1.4 billion;
- the issuance of $523 million in common shares relating to investments/acquisitions and, $594 million through the Dividend and Share Purchase Plan and employee share/stock option plans;
- the issuance of $650 million in Tier 1 innovative trust securities;
- the issuance of $850 million in non-cumulative preferred shares (including $250 million relating to the investment in CI Financial); and
- a reduction in net after-tax unrealized losses of $195 million on available-for-sale equity securities reported in Other Comprehensive Income (OCI), which was a deduction from Tier 1 capital last year.

These were partially offset by:

- capital deductions of $1.6 billion primarily relating to the Bank's investment in CI Financial of $2.3 billion;
- an increase in cumulative unrealized foreign currency translation losses of $1.7 billion, net of hedges and related taxes, due to the strengthening of the Canadian dollar; and
- an increase in goodwill of $0.6 billion, primarily from the E*TRADE Canada acquisition.

Over the past five years, the Bank has generated $8.7 billion of internal capital, notwithstanding an increase in dividends of 78% during this period. This level of internal capital generation has remained strong.

Tier 2 capital

Tier 2 capital increased by $0.3 billion in 2009, arising from the issuance of $2 billion of subordinated debentures, offset by a planned early redemption of subordinated debentures of $325 million, and $1.3 billion increase in deductions primarily relating to the Bank's investment in CI Financial.

Risk-weighted assets

Risk-weighted assets decreased by $29 billion over the prior year to $222 billion. This decline was due primarily to a reduction in credit exposures and the impact of a stronger Canadian dollar on foreign currency denominated assets, partly offset by a combination of growth initiatives, acquisitions and credit migration.

Regulatory capital ratios

In 2009, both of the Bank's regulatory capital ratios remained strong. Tier 1 and Total capital ratios as at year end were 10.7% and 12.9%. These ratios continued to exceed OSFI's minimum capital ratios of 7% and 10% as a result of prudent capital management and consistent earnings.

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, such as direct credit substitutes and performance letters of credit, by its total capital. As at October 31, 2009 the Bank's ACM of 16.6:1 was well below the regulatory maximum.

n T17 Selected capital management activity

For the fiscal years ($ millions)	2009	2008	2007
Dividends			
Common	**$ 1,990**	$ 1,896	$ 1,720
Preferred	**186**	107	51
Common shares issued (1)(2)	**1,117**	266	184
Repurchase of common shares – normal course issuer bid (2)	**—**	(40)	(629)
Preferred shares issued (2)	**850**	1,225	1,035
Subordinated debentures issued (3)	**2,000**	3,144	—
Repurchase and redemption of subordinated debentures (3)	**(359)**	(691)	(500)
Redemption of capital instrument liabilities (4)	**—**	—	(250)
Issuance of trust subordinated notes and trust securities (4)	**650**	—	1,000

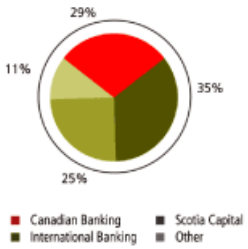
(1) Represents primarily cash received for stock options exercised during the year and common shares issued pursuant to the Dividend and Share Purchase Plan.

(2) For further details, refer to Note 14 of the Consolidated Financial Statements.

(3) For further details, refer to Note 12 of the Consolidated Financial Statements.

(4) For further details, refer to Note 13 of the Consolidated Financial Statements.

C24 Total economic capital by business line
as at October 31, 2009



Financial stability forum disclosures

In 2008, the Financial Stability Forum, based on the request of G-7 ministers and central bank governors, released its report on market at that time. Among others, a key recommendation of the report was to improve transparency by providing enhanced risk disclosures on financial instruments that markets consider to be higher risk, including off-balance sheet vehicles and structured products. Based on these recommendations, the Bank continues to provide additional disclosures as follows:

Variable interest entities	p. 43
Mortgage-backed securities	p. 47
Montreal Accord Asset-Backed Commercial Paper (ABCP)	p. 48
Collateralized debt obligations and collateralized loan obligations	p. 48
Structured investment vehicles	p. 49
Exposure to monoline insurers	p. 49
Exposure to Alt-A	p. 49
Leveraged loans	p. 49
Auction-rate securities	p. 49
Automotive industry exposure	p. 49
Consumer auto-based securities	p. 50

Tangible common equity ratio

Tangible common equity (TCE) is generally considered to be an important measure of a bank's capital strength, and is often used by rating agencies and investors in their assessment of the quality of a bank's capital position. The Bank's revised definition of TCE comprises total common shareholders' equity plus non-controlling interest in subsidiaries, less goodwill and unamortized intangible assets. The TCE ratio is calculated by dividing tangible common equity by risk-weighted assets. At year end, the Bank's TCE ratio continued to be strong at 8.2%, 160 basis points higher than the restated 2008 level.

Economic capital

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

- *Credit risk* measures the risk that a borrower or counterparty will fail to honour its financial or contractual obligations to the Bank.
- Measurement is based on the Bank's internal credit risk ratings for corporate/commercial loans and derivatives, and credit scoring for retail loans. It is also based on the Bank's actual experience with recoveries and takes into account differences in term to maturity, probabilities of default, expected severity of loss in the event of default, and the diversification benefits of certain portfolios.
- *Market risk* is the risk of loss from changes in market prices (including interest rates, credit spreads, equity prices, foreign exchange rates, and commodity prices), the correlations among them, and their levels of volatility. Exposure is measured based on the internal VaR models used in the trading book; the VaR on the Bank's structural interest rate risk, structural foreign exchange risk, and equity market risk; and embedded options risk.
- *Operational risk* 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.
- *Other risk* includes additional risks for which Economic Capital is attributed, such as business risk, strategic risk, insurance risk and real estate risk.

  The Bank uses its Economic Capital framework to attribute capital to the business lines (refer to non-GAAP measures, page 27). Chart 24 shows the attribution of economic capital by business line. This allows the Bank to appropriately compare and measure the returns from the business lines, based upon their inherent risk. For further discussion on risk management and details on credit, market and operational risks, including exposures pertinent to the current market turmoil, refer to the Risk Management section.

Dividends

The strong earnings and capital position of the Bank allowed the quarterly dividend to be maintained at 49 cents in 2009. Dividends have risen at a compound annual rate of 16% over the past 10 years.

Share buyback program

In the third quarter of 2008, the Bank initiated a normal course issuer bid to purchase up to 20 million of the Bank's common shares. The bid terminated on January 11, 2009 and was not renewed. During fiscal 2009, the Bank did not purchase any common shares.

Share data

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

Credit ratings

The Bank continues to have strong credit ratings. The current ratings are AA by DBRS, Aa1 by Moody's and AA- by both Standard & Poor's and Fitch.

Outlook

The Bank has a strong capital position with an industry-leading ROE. Capital will continue to be prudently managed to support organic growth initiatives, selective acquisitions and any evolving regulatory changes.

n T18 Share data

As at October 31	Number of Shares (000s)
Common shares	**1,024,939**(1)
Preferred shares Series 12	**12,000**(2)
Preferred shares Series 13	**12,000**(3)
Preferred shares Series 14	**13,800**(4)
Preferred shares Series 15	**13,800**(5)
Preferred shares Series 16	**13,800**(6)
Preferred shares Series 17	**9,200**(7)
Preferred shares Series 18	**13,800**(8)(9)
Preferred shares Series 20	**14,000**(8)(10)
Preferred shares Series 22	**12,000**(8)(11)
Preferred shares Series 24	**10,000**(8)(12)
Preferred shares Series 26	**13,000**(8)(13)
Preferred shares Series 28	**11,000**(8)(14)
Series 2000-1 trust securities issued by BNS Capital Trust	**500**(15)
Series 2002-1 trust securities issued by Scotiabank Capital Trust	**750**(16)
Series 2003-1 trust securities issued by Scotiabank Capital Trust	**750**(16)
Series 2006-1 trust securities issued by Scotiabank Capital Trust	**750**(16)
Series 2009-1 trust securities issued by Scotiabank Tier 1 Trust	**650**(16)
Scotiabank Trust Subordinated Notes — Series A issued by Scotiabank Subordinated Notes Trust	**1,000**(16)
Outstanding options granted under the Stock Option Plans to purchase common shares	**23,029**(1)(17)

(1) As at November 25, 2009, the number of outstanding common shares and options were 1,025,050 and 22,897, respectively. The number of other securities disclosed in this table were unchanged.

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

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

(4) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.28125 per share.

(5) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.28125 per share.

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

(7) These shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.35 per share.

(8) These preferred shares have conversion features.

(9) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. Dividends, if and when declared, during the initial five-year period ending on April 25, 2013, will be payable in an amount of $0.3125 per share. Subsequent to the initial five-year fixed-rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada yield plus 2.05%, multiplied by $25.00.

(10) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. The initial dividend was paid on July 29, 2008, in an amount of $0.1678 per share. Dividends, if and when declared, during the initial five-year period ending on October 25, 2013, will be payable in an amount of $0.3125 per share. Subsequent to the initial five-year fixed-rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada yield plus 1.70%, multiplied by $25.00.

(11) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. The initial dividend, if and when declared will be payable on January 28, 2009, in an amount of $0.4829 per share. Dividends, if and when declared, during the initial five-year period ending on January 25, 2014, will be payable in an amount of $0.3125 per share. Subsequent to the initial five-year fixed-rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada yield plus 1.88%, multiplied by $25.00.

(12) These shares are entitled to non-cumulative preferential cash dividends, payable quarterly. The initial dividend was paid on April 28, 2009, in an amount of $0.5865 per share. Dividends, if and when declared, during the initial five-year period ending on January 25, 2014, will be payable in an amount of $0.3906 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada yield plus 3.84%, multiplied by $25.00.

(13) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. The initial dividend was paid on April 28, 2009, in an amount of $0.41524 per share. Dividends, if and when declared, during the initial five-year period ending on April 25, 2014, will be payable in an amount of $0.390625 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada yield plus 4.14%, multiplied by $25.00.

(14) These shares are entitled to non-cumulative preferential cash dividends payable quarterly. The initial dividend was paid on April 28, 2009, in an amount of $0.37671 per share. Dividends, if and when declared, during the initial five-year period ending on April 25, 2014, will be payable in an amount of $0.390625 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada yield plus 4.46%, multiplied by $25.00.

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

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

(17) Included are 19,086 stock options with tandem stock appreciation right (SAR) features.

Off-balance sheet arrangements

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

Variable interest entities (VIEs)

Off-balance sheet arrangements with VIEs include:

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

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

As at October 31, 2009, total consolidated assets related to VIEs were $2.6 billion, compared to $5.8 billion at the end of 2008. The amounts owed by or to the consolidated VIEs were not significant. The Bank earned fees of $64 million and $72 million in 2009 and 2008, respectively, from certain VIEs in which it had a significant variable interest at the end

of the year but did not consolidate. More information with respect to the Bank's involvement with VIEs, including details of liquidity facilities and maximum loss exposure by VIE category, is provided below and in Note 6 to the Consolidated Financial Statements on pages 121 and 122.

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

- Multi-seller conduits sponsored by the Bank,
- Liquidity facilities provided to non-Bank sponsored conduits,
- Funding vehicles, and
- Collateralized debt obligation entities.

Multi-seller conduits sponsored by the Bank

The Bank sponsors three multi-seller conduits, two of which are Canadian-based and one in the United States. The Bank earns commercial paper issuance fees, program management fees, liquidity fees and other fees from these multi-seller conduits, which totaled $63 million in 2009, compared to $70 million in the prior year.

The multi-seller conduits purchase high-quality financial assets, primarily from clients, and finance these assets through the issuance of highly rated commercial paper. For assets purchased, there are supporting backstop liquidity facilities that are generally equal to 102% of the assets purchased or committed to be purchased. The primary purpose of the backstop liquidity facility is to provide an alternative source of financing in the event the conduit is unable to access the commercial paper market.

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

Canada

The Bank's primary exposure to the Canadian-based conduits is the liquidity support provided, with total liquidity facilities of $1.8 billion as at October 31, 2009 (October 31, 2008 –$4.3 billion). The year-over-year decrease was due to repayments and asset amortization. As at October 31, 2009, total commercial paper outstanding for the Canadian-based conduits administered by the Bank was $1.6 billion (October 31, 2008 – $3.8 billion) and the Bank held approximately 4% of the total commercial paper issued by these conduits. Table 19 presents a summary of assets purchased and held by the Bank's two Canadian multi-seller conduits as at October 31, 2009 and 2008, by underlying exposure.

Substantially all of the conduits' assets have been structured to receive credit enhancements from the sellers, including overcollateralization protection and cash reserve accounts. Approximately 8% of the funded assets

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

	2009			2008		
As at October 31 ($ millions)	Funded assets(1)	Unfunded commitments	Total exposure(2)	Funded assets(1)	Unfunded commitments	Total exposure(2)
Auto loans/leases	**$ 505**	**$ 138**	**$ 643**	$ 2,204	$ 299	$ 2,503
Equipment loans	**723**	**43**	**766**	969	63	1,032
Trade receivables	**165**	**59**	**224**	205	91	296
Canadian residential mortgages	**67**	**1**	**68**	89	2	91
Retirement savings plan loans	**92**	**2**	**94**	156	3	159
Loans to closed-end mutual funds	**—**	**—**	**—**	161	91	252
Total(3)	**$ 1,552**	**$ 243**	**$ 1,795**	$ 3,784	$ 549	$ 4,333

(1) Funded assets are reflected at original cost, which approximates estimated fair value.

(2) Exposure to the Bank is through global-style liquidity facilities and letters of guarantee.

(3) These assets are substantially sourced from Canada.

n T20 Assets held by Scotiabank-sponsored U.S.-based multi-seller conduit

	2009			2008		
As at October 31 ($ millions)	Funded assets(1)	Unfunded commitments	Total exposure(2)	Funded assets(1)	Unfunded commitments	Total exposure(2)
Credit card/consumer receivables	**$ 253**	**$ 45**	**$ 298**	$ 1,318	$ 641	$ 1,959
Auto loans/leases	**1,501**	**620**	**2,121**	2,894	1,160	4,054
Trade receivables	**1,049**	**2,712**	**3,761**	2,161	1,855	4,016
Loans to closed-end mutual funds	**115**	**73**	**188**	690	652	1,342
Diversified asset-backed securities	**741**	**15**	**756**	932	19	951
Corporate loans(3)	**348**	**46**	**394**	417	50	467
Total(4)	**$ 4,007**	**$ 3,511**	**$ 7,518**	$ 8,412	$ 4,377	$ 12,789

(1) Funded assets are reflected at original cost. The fair value of these assets as at October 31, 2009 was estimated to be $3.6 billion (October 31, 2008 — $8.0 billion).

(2) Exposure to the Bank is through global-style liquidity facilities in the form of asset purchase agreements.

(3) These assets represent secured loans that are externally rated investment grade.
(4) These assets are sourced from the U.S.

were externally rated AAA as at October 31, 2009, with the balance having an equivalent rating of AA- or higher based on the Bank's internal rating program. There were no non-investment grade assets held in these conduits as at October 31, 2009. While 58% of the total funded assets have final maturities falling within three years, the weighted average repayment period, based on cash flows, approximates one year. There is no exposure to U.S. subprime mortgage risk within these two conduits.

United States

The Bank's primary exposure to the U.S.-based conduit is the liquidity support and program-wide credit enhancement provided, with total liquidity facilities of $7.5 billion as at October 31, 2009 (October 31, 2008 –$12.8 billion). Excluding the impact of foreign currency translation, total exposure fell $4.4 billion year over year. This decline reflects a general reduction in client business. As at October 31, 2009, total commercial paper outstanding for the U.S.-based conduit administered by the Bank was $4.2 billion (October 31, 2008 – $8.4 billion) and the Bank did not hold any commercial paper issued by this conduit.

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

Table 20 presents a summary of assets purchased and held by the Bank's U.S. multi-seller conduit as at October 31, 2009 and 2008, by underlying exposure.

As at October 31, 2009, approximately 76% of the conduit's funded assets were rated "A" or higher, either externally (31%) or based on the Bank's internal rating program (45%). Substantially all of the assets held in this conduit were rated investment grade as at October 31, 2009. While 54% of the total funded assets have final maturities falling within five years, the weighted average repayment period, based on expected cash flows, approximates 1.5 years.

The conduit has investments in two pools of diversified asset-backed securities. The assets underlying these securities are primarily retail loans, including U.S. home equity, student loans and residential mortgage-backed securities. These pools are guaranteed by monoline insurers both of which have experienced external ratings downgrades during the year (refer to exposure to monoline insurers on page 49). As at October 31, 2009, the two monoline insurers were rated non-investment grade by the external rating agencies. As a result one of these pools was rated below investment grade based on the Bank's internal rating program as at October 31, 2009.

During fiscal 2009, there were no events that required a reassessment of the primary beneficiary of this conduit.

In 2008, the conduit transferred CDO and CLO assets to the Bank, pursuant to the terms of its liquidity asset purchase agreements. A pre-tax charge of $298 million, after considering recoveries, was recorded in the Consolidated Statement of Income at the time of the transfers. The loss represented the difference between the amounts paid (original cost of the assets) and the fair value of the assets on the dates the assets were transferred to the Bank. As a consequence of the aforementioned transfer of assets to the Bank, the conduit increased its subordinated note held by an unrelated party. This note absorbed the majority of the expected losses of the remaining assets of the conduit.

Liquidity facilities provided to non-Bank sponsored conduits

For conduits not administered by the Bank, liquidity facilities totaled $640 million as at October 31, 2009 (October 31, 2008 — $1.2 billion), all of which were for U.S. third-party conduits. The assets of these non-Bank sponsored conduits, which are not administered by the Bank, are mostly consumer auto- based securities. Approximately 79% of these assets are externally rated AAA. The majority of the liquidity facilities have an original committed term of 364 days, renewable at the option of the Bank. There is no exposure to U.S. subprime mortgage risk.

Funding vehicles

The Bank uses special purpose entities (SPEs) to facilitate the cost-efficient financing of its operations. The Bank has three such SPEs – Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust – that are VIEs and are not consolidated on the Bank's balance sheet, as the Bank is not the primary beneficiary. Scotiabank Trust Securities, Scotiabank Tier 1 Securities and Scotiabank Trust Subordinated Notes issued by the trusts are not reported on the Consolidated Balance Sheet, but qualify as regulatory capital. The deposit notes issued by the Bank to Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust are reported in deposits. Total deposits recorded by the Bank as at October 31, 2009 from these trusts were $4.0 billion (October 31, 2008 – $3.4 billion). The Bank recorded interest expense of $216 million on these deposits in 2009 (2008 – $ 199 million).

Collateralized debt obligation entities

The Bank holds an interest in VIEs structured to match specific investor requirements. Loans or credit derivatives are held by the VIE to create security offerings for investors that match their investment needs and preferences. The Bank's maximum exposure to loss from VIEs in which the Bank has a significant variable interest was $307 million as at October 31, 2009 (October 31, 2008 – $847 million) which includes the credit risk amounts relating to derivative contracts with these VIEs.

Securitizations

The Bank securitizes a portion of its residential mortgages and personal loans by transferring the assets on a serviced basis to trusts. Residential mortgage securitizations are principally conducted through the Bank's participation in the Canadian Government's Canada Mortgage Bond (CMB) program. If certain requirements

are met, these transfers are treated as sales, and the transferred assets are removed from the Consolidated Balance Sheet (this is discussed further in Note 1 to the Consolidated Financial Statements on pages 111 to 116). These securitizations enable the Bank to access alternative and more efficient funding sources, and manage liquidity and other risks. The Bank does not provide liquidity facilities 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.

The outstanding amount of off-balance sheet securitized mortgages was $17.5 billion as at October 31, 2009, compared to $12.8 billion last year. The increase in 2009 was primarily from ongoing sales through the CMB program and the Bank's participation in the Government of Canada Insured Mortgage Purchase Program (IMPP). This initiative was implemented in 2008 to enhance term liquidity in the Canadian financial markets. In 2009, the Bank sold $6.9 billion of mortgage-backed securities pursuant to this program, compared to $1.5 billion in 2008.

The amount of off-balance sheet securitized personal loans was $199 million as at October 31, 2009, compared to $235 million last year.

Subsequent to the transfer of assets, the Bank may retain interests in securities issued by the trusts, may make payments to the trusts under certain limited circumstances, maintains relationships with the underlying customers, and provides administrative services to the trusts. Additional information on the commitments to the trusts is disclosed in Note 23 to the Consolidated Financial Statements on pages 139 to 141.

The Bank recorded securitization revenues of $409 million in 2009, compared to $130 million in 2008. This increase was due to the Bank's ongoing sale of mortgages to the CMB program and the Bank's participation in the IMPP discussed above.

Additional information on the amount of securitizations and associated cash flows, servicing fees and retained interests is provided in Note 4(c) to the Consolidated Financial Statements on page 120.

Guarantees and other commitments

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

- Standby letters of credit and letters of guarantee: As at October 31, 2009, these amounted to $21.9 billion, compared to $27.8 billion last year. These instruments are issued at the request of a Bank customer to secure the customer's payment or performance obligations to a third party. The year-over-year decrease reflects a general decrease in customer business, as well as the weakening of the U.S. dollar.
- 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. Within liquidity facilities are credit enhancements that the Bank provides, in the form of financial standby letters of credit, to commercial paper conduits sponsored by the Bank. As at October 31, 2009, these credit enhancements amounted to $760 million, compared to $1,269 million last year. Refer to the liquidity discussions under VIEs on pages 43 to 45.
- Indemnification contracts: In the ordinary course of business, the Bank enters into many contracts where the Bank may indemnify contract counterparties for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur. The Bank cannot estimate, in all cases, the maximum potential future amount that may be payable, nor the amount of collateral or assets available under recourse provisions that would mitigate any such payments. Historically, the Bank has not made any significant payments under these indemnities.
- Loan commitments: The Bank has commitments to extend credit, subject to specific conditions, which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities. As at October 31, 2009, these commitments amounted to $104 billion, compared to $130 billion a year earlier. The majority of these commitments are short-term in nature, with original maturities of less than one year. The year-over-year decrease reflects a general decrease in the customer business as well as the weakening of the U.S. dollar.

These guarantees and loan commitments may expose the Bank to credit or liquidity risks, and are subject to the Bank's standard review and approval processes. For the guaranteed products, the 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 Other income in the Consolidated Statement of Income, were $386 million in 2009, compared to $240 million in the prior year. Detailed information on guarantees and loan commitments is disclosed in Note 23 to the Consolidated Financial Statements on pages 139 to 141.

Financial instruments

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

During the year, the Bank reclassified certain debt securities from available-for-sale securities to loans pursuant to changes in accounting standards for financial instruments. During 2008 certain trading assets were reclassified to available-for-sale securities. Refer to Changes in accounting policies on page 81.

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

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

All changes in the fair value of derivatives are recorded in the Consolidated Statement of Income, other than those designated as cash flow and net investment hedges which flow through Other Comprehensive Income. The Bank's accounting policies for derivatives and hedging activities are further described in Note 1 to the Consolidated Financial Statements (see pages 111 to 116).

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. Net gains and losses on trading securities are recorded in other income – trading revenues. Realized gains and losses and writedowns for other-than-temporary impairment on available-for-sale securities and equity account investments are recorded in other income – net gains (losses) on securities, other than trading.

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

A discussion of the Bank's risk management policies and practices can be found in the Risk Management section (see pages 62 to 76). In addition, Note 24 to the Consolidated Financial Statements on pages 141 to 149 presents the Bank's exposure to credit risk, liquidity risk and market risks arising from financial instruments as well as the Bank's corresponding risk management policies and procedures.

There are various measures that reflect the level of risk associated with the Bank's portfolio of financial instruments. For example, the interest rate risk arising from the Bank's financial instruments can be estimated by calculating the impact of a 100 or 200 basis point increase in interest rates on annual income and the economic value of shareholders' equity, as described on page 148. For trading activities, the table on page 149 discloses the average one-day Value at Risk by risk factor. For derivatives, based on the Bank's maturity profile of derivative instruments, only 12% (2008 – 15%) had a term to maturity greater than five years.

Note 27 to the Consolidated Financial Statements (see pages 152 to 156) provides details about derivatives used in trading and non-trading activities, including notional amounts, remaining term to maturity, credit risk and fair values.

The fair value of the Bank's financial instruments are provided in Note 25 to the Consolidated Financial Statements (see pages 150 to 151) along with a description of how these amounts were determined.

The fair value of the Bank's financial instruments was unfavourable when compared to their carrying value by $2,152 million as at October 31, 2009 (October 31, 2008 – $543 million). This difference relates to loan assets, deposit liabilities, subordinated debentures and capital instrument liabilities. The year-over-year change in the excess of fair value over book value arose mainly from changes in interest rates and credit spreads. Fair value estimates are based on market conditions at October 31, 2009, and may not be reflective of future fair values. Further information on how fair values are estimated is contained in the section on Critical accounting estimates (see pages 77 to 81).

Disclosures specific to certain financial instruments designated as held for trading under the fair value option can be found in Note 26 to the Consolidated Financial Statements (see page 152). These designations were made primarily to avoid an accounting mismatch between two instruments, or to better reflect how the performance of a specific portfolio is evaluated by the Bank.

n T21 Mortgage-backed securities

	As at October 31, 2009		As at October 31, 2008	
Carrying value ($ millions)	Non-trading portfolio	Trading portfolio	Non-trading portfolio	Trading portfolio
Canadian NHA mortgage-backed securities(1)	**$ 21,287**	**$ 253**	$ 6,252	$ 184
Commercial mortgage-backed securities	**4**(2)	**44**(3)	123(2)	47(3)
Other residential mortgage-backed securities	**93**	**—**	55	—
Total	**$ 21,384**	**$ 297**	$ 6,430	$ 231

(1) Canada Mortgage and Housing Corporation provides a guarantee of timely payment to NHA mortgage-backed security investors.

(2) The assets underlying the commercial mortgage-backed securities in the non-trading portfolio relate to non-Canadian properties.

(3) The assets underlying the commercial mortgage-backed securities in the trading portfolio relate to Canadian properties.

Selected credit instruments

Mortgage-backed securities

Non-trading portfolio

Total mortgage-backed securities held as available-for-sale securities represent approximately 4% of the Bank's total assets as at October 31, 2009 and are shown below in Table 21. During the year, the Bank's holdings of Canadian NHA mortgage-backed

securities increased by $15 billion due mainly to the conversion of mortgages into mortgage-backed securities. Exposure to U.S. subprime mortgage risk is nominal.

Trading portfolio

Total mortgage-backed securities held as trading securities represent less than 0.1% of the Bank's total assets as at October 31, 2009 and are shown in Table 21 on page 47.

Montreal Accord Asset-Backed Commercial Paper (ABCP)

As a result of the Montreal Accord ABCP restructuring in the first quarter of 2009, the Bank received longer-dated securities which were classified as available-for-sale. Approximately 44% of the new notes are A-rated Class A-1 notes and 36% are BBB (low)-rated A-2 notes. The Bank's carrying value of $144 million represents approximately 62% of par value. Taking into account current market conditions, the Bank has not recorded any net gain or loss in the current year.

As part of the restructuring, the Bank participated in a margin funding facility, which was recorded as an unfunded loan commitment. The Bank's portion of the facility is $200 million. It is currently undrawn.

n T22 Collateralized debt obligations (CDOs)

Trading portfolio

	As at October 31, 2009		As at October 31, 2008	
Outstanding ($ millions)	Notional Amount	Positive/ (negative) fair value	Notional Amount	Positive/ (negative) fair value
CDOs — sold protection	**$ 6,000**	**$ (1,620)**	$ 6,647	$ (3,368)
CDOs — purchased protection	**$ 5,625**	**$ 1,657**	$ 6,550	$ 3,187

Collateralized debt obligations and collateralized loan obligations

Non-trading portfolio

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

Effective November 1, 2008, certain of the Bank's CDOs and CLOs were reclassified to loans pursuant to changes in accounting standards. These reclassified CDOs and CLOs were carried at amortized cost in the Consolidated Balance Sheet at October 31, 2009 (see discussion of changes in accounting policies on page 111 in Note 1 of the Consolidated Financial Statements).

Prior to November 1, 2008, these investments were carried at fair value on the Bank's Consolidated Balance Sheet as available-for-sale securities. Changes in the fair value of cash-based CDOs and CLOs were reflected in other comprehensive income, unless there had been an other-than-temporary decline in fair value, which was recorded in net income. Changes in the fair value of synthetic CDOs and CLOs were and continue to be reflected in net income.

Substantially all of the referenced assets of the Bank's CDOs and CLOs are corporate exposures, with no U.S. mortgage-backed securities.

The Bank has exposure to both cash-based and synthetic CDOs. As at October 31, 2009, the carrying value of cash-based CDOs reclassified to loans on the Bank's Consolidated Balance Sheet was $130 million. The fair value of these CDOs was $53 million. As at October 31, 2008, these CDOs were classified as available-for-sale securities and had a fair value of $67 million, with $83 million of unrealized losses included in Accumulated Other Comprehensive Income (AOCI).

The Bank's remaining exposure to synthetic CDOs was $267 million as at October 31, 2009 (October 31, 2008 –$270 million). During the year, the Bank recorded a pre-tax gain of $56 million in net income for changes in fair value of synthetic CDOs (2008 – pre-tax loss of $453 million). The change in fair value of the synthetic CDOs was mainly driven by the tightening of credit spreads, while last year's loss was due to widening credit spreads and credit events in certain previously highly rated reference assets.

In aggregate the cash and synthetic CDO portfolio is well diversified, with an average individual CDO holding of $21 million, and no single industry exceeding 23% of the referenced portfolio on a weighted average basis. Based on their carrying values, these CDOs have a weighted average rating of A. More than 16% of their investments are senior tranches with subordination of 10% or more, and 19% of the investments are in equity tranches.

As at October 31, 2009, the carrying value of the Bank's CLOs on the Consolidated Balance Sheet was $984 million. The fair value was $691 million. Substantially all the CLOs were reclassified to loans during the year and no impairment charges were taken on these items. As at October 31, 2008, the Bank's investments in CLOs were recorded as available-for-sale securities with a fair value of $660 million and $436 million of unrealized losses recorded in AOCI. Although these CLO investments experienced a decline in fair value, the Bank has the intent and ability to hold these investments until there is a recovery in fair value, which may be at maturity.

This CLO portfolio is well diversified with an average individual CLO holding of $7 million, with no single industry exceeding 13% of the referenced portfolio on a weighted average basis. Based on carrying values, these CLOs have a weighted

average rating of A. More than 85% of these investment holdings are senior tranches with subordination of 10% or more. Only 2% of the investments are in equity tranches.

During the year the Bank recorded a pre-tax loss of $23 million in net income for other-than-temporary impairment of CLOs classified as AFS securities which were not reclassified to loans. In 2008, the Bank recorded a pre-tax loss of $35 million in net income and a pre-tax loss of $432 million in other comprehensive income, reflecting changes in the fair value of the CLOs.

The key drivers of the change in fair value of CDOs and CLOs are changes in credit spreads and the remaining levels of subordination. Based on positions held at October 31, 2009, a 50 basis point widening of relevant credit spreads would result in a pre-tax decrease of approximately $6 million in net income.

Trading portfolio

The Bank also holds synthetic CDOs in its trading portfolio as a result of structuring and managing transactions with clients and other financial institutions. Total CDOs purchased and sold in the trading portfolio are shown in Table 22 on page 48.

To hedge its trading exposure, the Bank purchases or sells CDOs to other financial institutions, along with purchasing and/or selling index tranches or single name credit default swaps (CDSs). The main driver of the value of CDOs and CDSs is changes in credit spreads. Based on positions held at October 31, 2009, a 50 basis point widening of relevant credit spreads in this portfolio would result in a pre-tax decrease of approximately $2 million in net income.

Over 70% of the Bank's credit exposure to CDO swap counterparties is to entities which are externally or internally rated investment grade equivalent. The referenced assets underlying the trading book CDOs are substantially all corporate exposures, with no mortgage-backed securities.

Structured investment vehicles

The carrying value of the Bank's investments in structured investment vehicles (SIVs) was nil as at October 31, 2009 and 2008. The Bank does not sponsor, manage or provide liquidity support to SIVs.

Exposure to monoline insurers

The Bank has insignificant direct exposure to monoline insurers. The Bank has indirect exposures of $1.3 billion (October 31, 2008 – $2.8 billion) in the form of monoline guarantees, which provide enhancement to public finance and other transactions, where the Bank has provided credit facilities to either the issuers of securities or facilities which hold such securities. The Bank's public finance exposures of $0.4 billion (October 31, 2008 – $1.5 billion) were primarily to U.S. municipalities and states. Approximately 85% of these securities are rated investment grade without the guarantee, and represent risk the Bank would take without the availability of the guarantee.

Other indirect exposures to monoline insurers were $0.9 billion (October 31, 2008 – $1.3 billion). These exposures were primarily composed of $0.7 billion (October 31, 2008 – $0.9 billion) of guarantees by two monolines on diversified asset-backed securities held by the Bank's U.S. multi-seller conduit (as discussed on pages 44 and 45 in the section on Multi-seller conduits sponsored by the Bank). As at October 31, 2009, the two monoline insurers were rated non-investment grade by the external rating agencies.

Exposure to Alt-A

In the U.S., loans are classified as Alt-A when they have higher risk characteristics such as lower credit scores and/or higher loan-to-value ratios. As at October 31, 2009, the Bank had insignificant direct and indirect exposure to U.S. Alt-A loans and securities. In Canada, the Bank does not have a mortgage program which it considers to be an equivalent of U.S. Alt-A.

Leveraged loans

The Bank may provide leveraged financing to non-investment grade customers to facilitate their buyout, acquisition and restructuring activities. The Bank's exposure to highly leveraged loans awaiting syndication as at October 31, 2009, was nominal.

Auction-rate securities

Auction-rate securities (ARS) are long-term, variable rate notes issued by trusts referenced to long-term notional maturity, but have interest rates reset at predetermined short-term intervals. ARS are issued by municipalities, student loan authorities and other sponsors through auctions managed by financial institutions. The Bank does not sponsor any ARS program and does not hold any ARS.

Automotive industry exposure

The Bank's direct (corporate and commercial) loan exposure to the North American and European automotive industry declined to $3.7 billion as at October 31, 2009 and was comprised of the following:

As at October 31 ($ billions)	2009	2008
Original equipment manufacturers (OEMs)	$ 0.2	$ 0.5
Financing and leasing	0.6	1.2
Parts manufacturers	0.5	0.7
Dealers	2.4	2.8
Total	$ 3.7	$ 5.2

Approximately 30% of this exposure is rated investment grade, either externally or based on the Bank's internal rating program, down from 63% as at October 31, 2008. Loans are typically senior in the capital structure of the borrowers. The reduction in the percentage of investment grade exposure from last year was expected in part as a result of the repayment of one large OEM investment grade account and portfolio migration. In 2009, the specific loss ratio for this portfolio (as a percentage of average loan exposures) was 35 basis points.

The Bank is actively managing its exposure to this sector. The Bank is

focused on large multi-dealer relationships and parts-manufacturing customers with geographic and OEM diversification, and has contained its exposure to North American OEMs. Regular stress tests are performed on the Bank's non-retail automotive exposures covering a number of different scenarios, including the default of the North American OEMs and its impact on part suppliers, financing companies and dealers.

The North American OEMs have restructured, resulting in reduced future production and contraction of North American operations. As a result of these events, in the second quarter of 2009, the Bank established a $60 million sectoral allowance against its North American non-retail automotive exposures for incurred losses expected to be identified individually over the coming quarters. During the year, $16 million of the sectoral allowance was reclassified to the specific provision for credit losses. Management believes this sectoral allowance is adequate to address potential losses inherent in the exposures to this sector.

Consumer auto-based securities

As at October 31, 2009, the Bank held $6.2 billion (October 31, 2008 – $7.8 billion) of consumer auto-based securities. These securities are almost all loan-based securities, with only 4% of these holdings representing leases. The loan-based securities arise from retail instalment sales contracts (loans) which are primarily acquired through a US$6 billion revolving facility to purchase U.S. and Canadian consumer auto loans from a North American automotive finance company. This facility has a remaining revolving period of less than one and a half years, and was modified last year to allow the seller to sell Canadian-based loans to the Bank for a limited period, rather than U.S.-based loans. The facility is structured with credit enhancement in the form of overcollateralization provided at the time of the loan purchases, resulting in no further reliance on the seller for credit enhancement. For each subsequent purchase under the revolving credit facility, the credit enhancement is a multiple of the most recent pool loss data for the seller's overall managed portfolio.

The Bank conducts periodic stress tests on these loan-based securities. Under different stress scenarios, the loss on this consumer auto loan-backed securities portfolio is within the Bank's risk tolerance level. Approximately 85% of these securities are externally rated AAA and have a weighted average life of approximately two years.

In 2008, these securities were classified as available-for-sale securities and carried at fair value. Effective November 1, 2008 the securities were reclassified to loans and are carried at amortized cost pursuant to changes in accounting standards (refer to Note 1 of the Consolidated Financial Statements for a discussion of the accounting policy changes). The fair value of the securities as at October 31, 2009 was $6.2 billion (October 31, 2008 – $7.5 billion), with unrealized gains of $48 million (October 31, 2008 –unrealized losses of $272 million).

Other

The Bank provides liquidity facilities to its own sponsored multi-seller conduits and to non-bank sponsored conduits to support automotive loan and lease assets held by those conduits. For details, see sections on Multi-seller conduits sponsored by the Bank (pages 44 and 45) and Liquidity facilities provided to non-bank sponsored conduits (page 45).

Canadian Banking

C25 Canadian Banking net income



Canadian Banking had a record year in 2009, with net income of $1,851 million, an increase of $127 million or 7% over last year. Substantial growth in retail mortgages, personal lending and deposits, and a wider interest margin from lower wholesale funding rates were partially offset by higher provisions for credit losses. Non-interest expenses were well controlled, up 3% mainly from acquisitions and sales force expansion.

International Banking

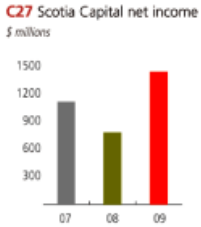
C26 International Banking net income



International Banking also had a record year in 2009, with net income of $1,315 million, an increase of $129 million or 11% over last year. This was primarily from acquisitions, asset growth in existing businesses, fair value adjustments and the favourable impact of foreign currency translation. However, 2009 also included writedowns on available-for-sale securities, lower realized gains, and a significant increase in provisions for credit losses, mainly in retail.

Scotia Capital

C27 Scotia Capital net income



Scotia Capital reported record net income of $1,451 million in 2009. This was up $664 million or 84% year over year, as 2008 results included charges related to certain trading activities and valuation adjustments due to market volatility. In addition, 2009 results were stronger due to higher trading and investment banking revenues, and wider lending spreads. Partly offsetting were higher provisions for credit losses and lower tax-exempt dividend income.

n T23 2009 financial performance

($ millions)	Canadian Banking	International Banking	Scotia Capital	Other(1)	Total
Net interest income(2)	$ 4,785	$ 3,773	$ 1,427	$ (1,657)	**$ 8,328**
Other income	2,279	1,480	2,138	232	**6,129**
Provision for credit losses	702	577	338	127	**1,744**
Non-interest expenses	3,757	2,960	1,072	130	**7,919**
Income taxes/non-controlling interest(2)	754	401	704	(612)	**1,247**
Net income	$ 1,851	$ 1,315	$ 1,451	$ (1,070)	**$ 3,547**
Return on equity(3) (%)	22.3%	12.5%	20.0%	N/A	**16.7%**
Average earning assets ($ billions) (3)	$ 192	$ 90	$ 183	$ 48	**$ 513**

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

(2) Taxable equivalent basis. See non-GAAP measures on page 27.

(3) Non-GAAP measure. Return on equity for the business segments is based on economic equity attributed. See non-GAAP measures on page 27. N/A Not applicable

Canadian Banking

2009 Achievements

- Scotia Mutual Funds continued to be strong in 2009, and were ranked #1 by the Investment Funds Institute of Canada for total net sales. This growth came in part from Scotia INNOVA Portfolios, ScotiaFunds' new fund-of-funds solution, which has had one of the industry's most successful launches of a product in this category, surpassing $500 million in assets under management since the January launch. DundeeWealth and CI Financial, in which the Bank has invested, were also top sales performers.
- Rebranded the insurance business as ScotiaLife Financial and announced a broad range of home, auto and life insurance products and services distributed through multiple channels including the first retail storefront for Scotia.
- Launched the new Scotia Visa Momentum card which provides customers with a money back savings feature of up to 2%.
- The joint venture with Cineplex Entertainment, SCENE, surpassed 2 million members. This integrated loyalty program is providing an excellent source of new customers for Scotiabank – with more than 160,000 added in Fiscal 2009 and over 300,000 since the program launched in May of 2007.
- Enhanced the *Startright* Program to provide more financial tools and resources to Newcomers to Canada – a key growth customer segment.
- Scotiabank recently captured five Best Banking Awards from the 2009 Synovate Customer Service Index (CSI) study, up from four in 2008. The awards garnered this year were for Values My Business, Financial Planning & Advice, Interest Rates and Service Charges, Value for Money and Products & Service Excellence.

2010 Priorities

- Maintain strong market position and focus on high potential growth areas across products.
- Grow revenues and control expenses while maintaining positive operating leverage.
- Leadership development.
- Invest in new initiatives to build profitable new customer relationships.
- Prudently manage risk.

Key performance indicators

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

- Net income
- Operating leverage and productivity ratio
- Loan loss ratio
- Market share of key products
- New customer acquisition
- Customer loyalty
- Employee satisfaction

Business profile

Canadian Banking provides a full range of banking and investing services to more than 7.4 million customers across Canada, through a network of 1,019 branches, 2,964 ABMs, and 101 Wealth Management offices, as well as telephone and Internet banking. Canadian 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, trust and estate planning, as well as private client services, for affluent customers.
- Commercial Banking delivers a full product suite to medium and large businesses, including banking, cash management, lending and leasing.

Strategy

Canadian Banking remains committed to developing strong relationships with its customers and ensuring that they have access to great service and advice, as well as a full suite of financial solutions to help achieve their financial priorities. Canadian Banking will continue to pursue growth strategies focused on building profitable relationships across key customer segments and high potential markets.

Financial performance

Canadian Banking reported net income of $1,851 million in 2009, $127 million or 7% higher than last year. Return on economic equity was 22.3% versus 35.6% last year. The decrease was due to higher capital attributed to the business line, relating to the acquisition of E*TRADE

Canada (renamed Scotia iTRADE) and the purchase of a significant investment in CI Financial.

Assets and liabilities

Average assets before securitization rose $17 billion or 10% in 2009. This was led by substantial growth in residential mortgages (before securitization) of $9 billion or 8%, which resulted in market share growth of 18 basis points versus the other major banks. Personal loans, including revolving credit, increased $6 billion or 16% year over year. Personal deposits grew by $9 billion or 10%, reflecting customers' preference for safe and liquid investments during a period of economic uncertainty. Non-personal deposits rose $8 billion or 18% from growth in both non-personal term and current accounts. Assets under administration grew 7% to $137 billion in 2009, mainly in mutual funds reflecting a market recovery in the second half of 2009.

Revenues

Total revenues were $7,064 million, up $566 million or 9% from last year. Net interest income increased $461 million to $4,785 million, due to strong volume growth in both assets and deposits. The margin increased by 3 basis points to 2.49%, due in part to lower wholesale funding costs and a wider prime/BA spread. Other income for the year was $2,279 million, representing growth of $105 million or 5% mainly in retail and wealth management.

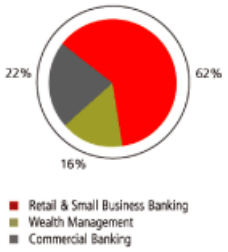
Retail & Small Business Banking

Total revenues were $4,404 million, up $390 million or 10% from last year. Net interest income rose by $354 million or 11% due to growth in assets and deposits and a higher margin. Other income rose $38 million or 4% mainly in transaction-based fees, partly offset by a decrease in ABM fees due to lower transaction volumes.

Commercial Banking

Total revenues rose $177 million or 13% to $1,525 million in 2009. Net interest income grew 17% from last year, with a significantly higher margin mainly from lower wholesale funding costs and growth in both assets and deposits. Average deposits rose 20%, largely from growth in current accounts. Average assets grew 2% reflecting the slower business climate in 2009. Year-over-year, other income was flat at $328 million.

C28 Canadian Banking total revenue
as at October 31, 2009



n T24 Canadian Banking financial performance

($ millions)	2009	2008	2007
Net interest income(1)	**$ 4,785**	$ 4,324	$ 3,855
Other income	**2,279**	2,174	2,248
Provision for credit losses	**702**	399	295
Non-interest expenses	**3,757**	3,632	3,559
Income taxes(1)	**754**	743	685
Net income	**$ 1,851**	$ 1,724	$ 1,564
Key ratios			
Return on economic equity	**22.3%**	35.6%	33.0%
Productivity(1)	**53.2%**	55.9%	58.3%
Net interest margin(1)	**2.49%**	2.46%	2.51%
PCL as a percentage of loans and acceptances	**0.37%**	0.23%	0.19%
Selected balance sheet data (average balances)			
Earning assets	**192,262**	175,464	153,695
Deposits	**143,891**	127,615	116,012
Economic equity	**8,049**	4,764	4,699

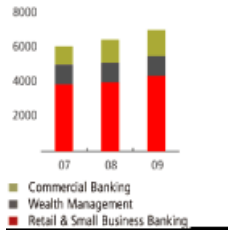
(1) Taxable equivalent basis.

Wealth Management

Total revenues were flat at $1,135 million year over year, as revenue from the investment in CI Financial and the full-year impact of Scotia iTRADE were offset by lower revenues from other business segments as a result of difficult market conditions. Mutual fund revenues were down 13%, although market share grew. Private client and full-service brokerage revenues were down due to a lower interest margin reflecting historically low interest rate levels and weak

C29 Total revenue by sub-segment

($ millions)



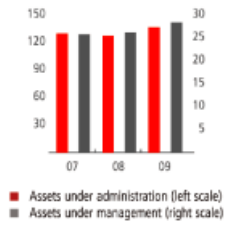
C30 Loan growth

($ billions)



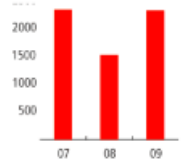
C31 Wealth management asset growth

($ billions)



C32 Wealth management mutual fund sales

($ millions)



market conditions. Partially offsetting were higher online brokerage revenues of 34%, mainly due to the acquisition of E*TRADE Canada and growth in trading volumes.

Non-interest expenses

Non-interest expenses rose $125 million or 3% to $3,757 million in 2009. The increase was due mainly to the full year impact of the acquisitions of E*TRADE Canada and Irwin Commercial Finance Canada (renamed Roynat Lease Financing), new branches and sales force expansion in 2008, higher performance-related compensation and higher VISA reward points. Partially offsetting were lower discretionary expenses reflecting management action taken in response to uncertain market conditions.

Credit quality

The provision for credit losses in Canadian Banking was $702 million in 2009, comprised of $695 million in specific provisions and a $7 million sectoral provision related to the automotive sector. The increase of $296 million in specific provisions compared to last year was primarily attributable to higher retail provisions in the indirect automotive and unsecured lending portfolios.

Outlook

In 2010, it is expected that assets will grow moderately across most products, reflecting a gradual economic recovery. Deposit growth is not expected to be as strong as in 2009 and will likely be tempered by a flow of funds back to recovering equity markets and returning confidence in non-traditional service providers.

The interest margin should remain fairly stable as interest rates are expected to remain at historically low levels through the early months of the fiscal year.

Strong growth in other income is expected, reflecting increased credit card and retail revenues as well as stronger Wealth Management revenues, including higher contributions from the Bank's investments in CI Financial and DundeeWealth.

Retail and commercial loan loss provisions are expected to remain at higher levels, reflecting the relatively slow economic recovery and continued high unemployment.

Canadian Banking plans to expand its retail network and product offerings, while maintaining positive operating leverage for the year.

International Banking

2009 Achievements

- Revenue growth programs implemented to:
  - Focus on valued retail customers and optimize the productivity of our sales forces;
  - Provide new and improved sales and service channels through expanded call centre and internet banking capabilities;
  - Develop and promote new products and services by extending offerings such as insurance and wealth management.
- Credit risk management improved by implementing industry leading retail account management and pricing platforms in a number of key markets.
- Operational efficiency improved by:
  - Consolidating functions and standardizing operating platforms, systems and processes;
  - Completing the integration of Banco del Desarrollo in Chile.
- Expanded the distribution network in selected geographies and segments by:
  - Adding 99 branches, including 35 in Mexico and 15 in the Caribbean and Central America; and
  - Opening Private Client Group offices in Miami, Turks and Caicos and Trinidad and Tobago to expand wealth management operations.
- Furthered investment in Thailand, a key growth market, through increased ownership of Thanachart Bank from 24.99% to 49%.
- Recognized for commitment to excellence, and customer satisfaction and loyalty:
  - Scotiabank was selected as Bank of the Year 2009 in Belize, Turks and Caicos, Guyana, Barbados and the Dominican Republic by *The Banker* magazine and as Bank of the Year 2009 in Jamaica by *Euromoney* magazine;
  - *Global Finance* magazine selected Scotiabank as Best Emerging Market Bank in Costa Rica and Jamaica and Best Foreign Exchange Bank in Jamaica;
  - *Trade Finance* magazine selected Scotiabank as Best Trade Bank in Central America and the Caribbean.

2010 Priorities

- Drive organic growth by optimizing profitability and retention of high-value customers;
- Deepen customer relationships by improving cross-sell on a full suite of product offerings to customers, striving to meet all of their financial services needs;
- Partner with Scotia Capital to build the Global Wholesale business in Latin America and Asia;
- Partner with Global Transaction Banking to drive additional value for our corporate and commercial customers by providing complementary services such as business deposits, cash management, trade finance and correspondent banking;
- Strengthen credit risk management by continuing to roll-out integrated, industry leading retail account management and pricing platforms across the division;
- Maintain positive operating leverage by judiciously managing strategic investments;
- Seek opportunistic acquisitions and investments.

Key performance indicators

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

- Net income
- Revenue growth
- Return on economic equity
- New customer acquisition
- Productivity ratio
- Loan loss ratio
- Employee engagement

Business profile

International Banking encompasses Scotiabank's retail and commercial banking operations in more than 40 countries outside Canada – an international presence unmatched by our domestic competitors. More than 46,000 employees, including subsidiaries and affiliates, provide a full range of financial services to over five million customers through a network of 1,907 branches and offices, 3,509 ABMs, telephone and Internet banking, in-store banking kiosks, and specialized sales forces. The Bank operates in the following geographic regions: the Caribbean and Central America, Mexico, Latin America and Asia.

Strategy

International Banking is growing through a combination of organic growth and acquisitions. Organic growth in personal banking is being driven by improving the effectiveness of in-branch sales teams, upgrading contact centers and Internet banking capability, building the branch network and adding specialized sales forces. The retail customer base is increasing by expanding the affluent and consumer finance segments. Growth in the commercial and corporate banking business will be furthered by leveraging the full range of services and expertise in the Scotiabank Group. International Banking is also expanding beyond traditional banking products and services to build its presence in pension fund management and insurance.

The acquisition strategy is focused primarily on acquiring financial services companies in markets where the Bank has existing operations; however, acquisitions may be used to selectively enter new markets.

Financial performance

International Banking reported net income of $1,315 million in 2009, an increase of $129 million or 11% from last year. Record results were achieved notwithstanding the global economic slowdown. This validates our strategy of investing in high potential markets with diversification across products, segments and geographies. This year's results benefited from the weaker Canadian dollar for most of the year and favourable fair value adjustments on certain financial instruments. Results were also impacted by higher contributions from acquisitions, strong treasury earnings and a low effective tax rate. Partly offsetting was the writedown of an equity investment and lower gains on sales of securities. Economic conditions curtailed growth and lead to deterioration in credit quality and increased loan losses. Return on economic equity was 12.5% compared to 15.5% last year due to an increase in capital attributed to International Banking.

Assets and liabilities

Average assets increased $10 billion or 13%, $5 billion (7%) after adjusting for the positive impact of the foreign currency translation and the impact of acquisitions. The increase in retail loans of 11% partly reflected the growth momentum from 2008 and the reclassification of certain securities to loans. Commercial loans recorded average year-over-year growth of 10% or $3 billion. Asset growth slowed during the year, returning modestly in the final quarter. The slowdown was across most jurisdictions, and reflected curtailed demand and tightened credit policies. Average securities volumes declined, mainly in Mexico. Growth in low-cost deposits was strong at 9%, stimulated by consumer demand for safe investment vehicles.

Revenues

Total revenues were a record $5,253 million in 2009, an increase of $656 million or 14% from last year. Excluding the impact of foreign currency translation and the impact of mark-to-market on certain securities, revenues rose 9%.

Net interest income was $3,773 million in 2009, an increase of $458 million or 14% from last year. This reflected the positive impact of foreign currency translation, fair value adjustments and contributions from new acquisitions in Peru and additional investments in Asia. Also contributing were increased average loans, widening of lending spreads and strong treasury revenues.

Other income increased $198 million or 15% to $1,480 million. This partly reflected foreign currency translation, fair value adjustments on certain financial instruments and the contribution from acquisitions. In addition, other income benefited from strong foreign exchange revenue and widespread transaction-driven growth. These were partly offset by higher writedowns of securities, the loss on sale of credit cards in Mexico, and the gain from the IPO of the Mexican Stock Exchange in 2008.

Caribbean and Central America

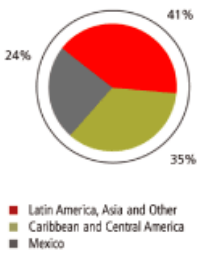
Total revenues were $1,843 million in 2009, an increase of $132 million or 8% over last year. Excluding the positive impact of foreign currency translation, acquisitions, and the fair value adjustments and writedowns on certain securities, total revenues rose $64 million or 4%.

n T25 International Banking financial performance

($ millions)	2009	2008	2007
Net interest income (1)	**$ 3,773**	$ 3,315	$ 2,762
Other income	**1,480**	1,282	1,227
Provision for credit losses	**577**	236	101
Non-interest expenses	**2,960**	2,634	2,279
Income taxes/non-controlling interest (1)	**401**	541	359
Net income	**$ 1,315**	$ 1,186	$ 1,250
Key ratios			
Return on economic equity	**12.5%**	15.5%	19.5%
Productivity (1)	**56.3%**	57.3%	57.1%
Net interest margin (1)	**4.21%**	4.17%	4.18%
PCL as a percentage of loans and acceptances	**0.90%**	0.44%	0.25%
Selected balance sheet data (average balances)			
Earning assets	**89,528**	79,403	66,146
Deposits	**49,810**	45,438	48,959
Economic equity	**9,968**	7,353	6,322

(1) Taxable equivalent basis.

C33 Total revenue



Net interest income was $1,475 million in 2009, an increase of $81 million excluding the impact of foreign currency translation. The increase was driven by higher average retail assets across the region and wider spreads.

Other income of $368 million was down $54 million from last year, mainly reflecting the impact of a $79 million writedown on an equity investment this year. Excluding this, the fair value adjustment to certain securities and the impact of acquisitions and foreign currency translation, other income decreased by 1% due to weakness in tourist-based economies.

Mexico

Total revenues were $1,244 million in 2009, a decrease of $137 million or 10% compared to last year. Excluding foreign currency translation, the loss on sale of the credit card portfolio and last year's IPO gains, revenues rose $83 million or 6%.

Net interest income was $820 million, a nominal decrease of $2 million from 2008 excluding the impact of foreign currency translation. Growth in mortgages, wider lending spreads and improved core deposits were partly offset by the lower value of deposits as interest rates fell throughout the year.

Other income was $424 million this year, down $55 million from 2008. Excluding the gain from the IPO in 2008, the loss on the sale of the credit card portfolio, and the impact of foreign currency translation, other income increased $85 million or 20%. This strong growth reflected higher retail fees and other transaction-driven income and strong foreign exchange revenue.

Latin America, Asia and Other

Total revenues were $2,166 million in 2009, an increase of $662 million over last year. The increase was primarily due to acquisitions, lower securities writedowns, fair value adjustments to certain financial instruments in Asia, and foreign currency translation. Strong treasury earnings and widening of lending spreads contributed to strong revenue growth. These were partly offset by lower net gains on sale of securities in 2009.

Non-interest expenses

Non-interest expenses were $2,960 million in 2009, up $326 million or 12% from last year. Acquisitions and foreign currency translation accounted for 8% of this increase. The increase was due to higher compensation and premises expenses, consistent with business growth and new branch openings with the residual growth being well below inflation.

Credit quality

The specific provision for credit losses was $577 million in 2009, an increase of $341 million over last year. Retail portfolios across all regions were adversely affected by the global economic downturn and the full year impact of new acquisitions. While commercial provisions rose, this was due to substantial reversals in the prior year. Overall, the International Banking commercial portfolio held up relatively well in 2009 notwithstanding the challenging economic environment.

Outlook

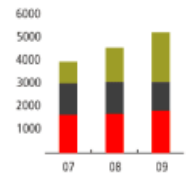
Improved economic conditions and selective acquisitions should support continued growth. Local currency assets are expected to increase in the second half of 2010 which, together with continued strong margins, should drive revenue growth. However, some markets could lag and a stronger Canadian dollar will adversely impact reported foreign currency earnings.

Loan loss provisions are expected to be higher next year entirely due to lower loan loss recoveries and reversals.

Expenses will continue to be carefully managed while pursuing investments to improve operational efficiency and ongoing investment opportunities.

C34 Revenue growth

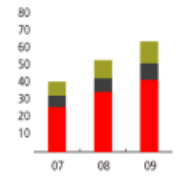
$ millions



Latin America, Asia and Other
Caribbean and Central America
Mexico

C35 Strong loan growth

$ billions

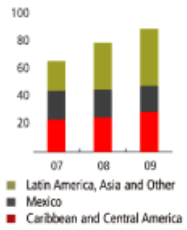


Average residential mortgages(1)
Average retail loans (excluding residential mortgages)
Average business loans and acceptances

(1) Includes securitized mortgages

C36 Total assets

$ billions



Scotia Capital

2009 Achievements

- *Bloomberg Markets* magazine named Scotia Capital amongst its prestigious "Bloomberg 20" most successful global investment banks.
- ScotiaMocatta launched a precious metals eStore in Canada offering a fully online delivery channel. Scotiabank is the first bank in Canada to offer this capability which allows shopping from the comfort of one's home.
- Scotia Capital received several recognitions from *Global Finance* magazine, including: Best Investment Bank in Canada for 2008, Best in Infrastructure Globally for 2008, Best Corporate/Institutional Internet Bank in Canada for 2009, and Best Foreign Exchange Bank in Canada for the fifth consecutive year (2009).
- Scotia Capital ranked #1 for Canadian Corporate Debt Underwriting in Bloomberg's 2008 League Tables.
- Scotia Waterous ranked #1 globally by number of Oil & Gas M&A transactions and #2 by deal value for 2008, according to Bloomberg.
- Notable transactions during the year:
  - Scotia Capital led a number of record breaking equity deals, including the largest common equity offering (Barrick Gold Corporation), largest preferred share offering (TransCanada), largest private placement (China Investment Corporation — Teck Resources Limited) and largest public/private placement, excluding self-led deals (Manulife Financial Corporation), as well as the largest IPO in Canada in 2009 (Genworth MI Canada Inc.).
  - Scotia Capital led a financing for the acquisition of Aeropuertos Dominicanos Siglo XXI by Advent International Corporation. The deal was the largest ever syndicated bank loan executed in the Dominican Republic, and was recognized as the Latin American Acquisition Deal of the Year for 2008 by *Euromoney Latin Finance* magazine.

2010 Priorities

- Continue to prudently manage risks, particularly credit and market risks.
- Execute sectoral strategy by expanding client coverage globally in selected industries and areas such as oil & gas, mining, power and institutional investor clients.
- Take advantage of Fixed Income opportunities that arise from the current market environment, with geographic expansion where warranted.
- Continue to expand the Energy Trading business initiative.
- Utilize the expanded and enhanced infrastructure platform to increase market share.
- Continue to capitalize on the enhanced equities franchise (sales, trading, research, underwriting).
- Partner with International Banking to optimize delivery of wholesale products and services to clients outside Scotia Capital's core geographic markets.
- Maintain focus on leadership development.

Key performance indicators

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

- Revenue growth
- Client profitability (return on economic equity)
- Improvement of cross sell
- Loan loss ratio
- Productivity ratio
- Value at risk
- Employee satisfaction

Business profile

Scotia Capital is the wholesale banking arm of the Scotiabank Group. It offers a wide variety of products to corporate, government and institutional investor clients. Scotia Capital is a full-service lender and investment dealer in Canada and Mexico, and offers a wide range of products in the U.S. It also provides select products and services to niche markets in Europe and Asia.

Scotia Capital provides corporate lending, equity underwriting and mergers & acquisitions advisory services, as well as capital markets products and services, such as fixed income, derivatives, prime brokerage, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious metals.

Strategy

Scotia Capital's strategy remains focused on achieving superior growth and earning strong returns on capital while prudently managing risk. This year Scotia Capital articulated a new strategic vision in the form of a Strategy Statement to better focus on revenue growth and other long-term business objectives:

Achieve superior growth by being a leading financial partner for our clients and a recognized global leader in key sectors. We will do this by leveraging our people, international reach, market intelligence and technical expertise.

Financial performance

Scotia Capital contributed record net income of $1,451 million in 2009, up $664 million or 84% from last year. This exceptional performance was driven by record revenues in both Global Capital Markets and Global Corporate and Investment Banking. Scotia Capital absorbed $62 million ($46 million after-tax) in charges relating to valuation adjustments, compared to $632 million ($382 million after-tax) last year relating to certain trading activities and valuation adjustments. The revenue increase predominantly reflects record performances in several businesses and underlines the strength of the diversified platform.

As expected, given market conditions during the year, provisions for loan losses increased significantly over last year to $338 million. Expenses also increased compared to last year. Return on economic equity was 20%, slightly lower than last year's performance as the record level of earnings was mitigated by an increase in equity attributed to the business.

Assets and liabilities

Total average assets increased 12% to $183 billion compared to last year. Average corporate loans and acceptances rose $8 billion, or 21%, to $46 billion. The United States lending business achieved strong growth of $6 billion or 36% and Europe also had strong loan growth of $2 billion or 27% compared to last year. There was also an increase of $13 billion in average derivative instrument assets, with a corresponding increase in derivative liabilities. Trading securities, loans and other assets to support both client-driven activity and trading opportunities were relatively unchanged.

Revenues

Total revenues increased to $3,565 million, up 95% compared to the prior year. Record revenues were achieved in both Global Capital Markets and Global Corporate and Investment Banking.

Net interest income increased 27% to $1,427 million, due primarily to higher loan volumes, interest margins and loan origination fees in the lending portfolios. Other income rose significantly, by 202%, to $2,138 million reflecting higher trading revenues, higher credit-related fees and investment banking revenues and lower losses on securities. After adjusting for the impact of charges relating to certain trading activities and valuation adjustments, other income increased by $861 million or 64%.

Global Corporate and Investment Banking

Total revenues increased 123% to a record $1,801 million. Interest income rose 49% reflecting strong growth in asset volumes and portfolio spreads in all lending markets. Loan origination fees also increased. Other income increased substantially from the prior year, which reflected the writedown of certain securities and collateralized debt obligations in the U.S. portfolio. Credit fees were substantially higher, partly driven by growth in acceptance fees in Canada. New issue and advisory fees increased to a record level, despite lower advisory fees in Scotia Waterous. Revenues from the Canadian and U.S. lending portfolios were at the second highest level ever achieved.

C37 Total revenue
as at October 31, 2009



n T26 Scotia Capital financial performance

($ millions)	2009	2008	2007
Net interest income (1)	**$ 1,427**	$ 1,120	$ 1,160
Other income	**2,138**	707	1,290
Provision for (recovery of) credit losses	**338**	(5)	(101)
Non-interest expenses	**1,072**	937	1,013
Income taxes (1)	**704**	108	413
Net income	**$ 1,451**	$ 787	$ 1,125
Key ratios			
Return on economic equity	**20.0%**	21.5%	29.0%
Productivity (1)	**30.1%**	51.3%	41.3%
Net interest margin (1)	**0.78%**	0.68%	0.76%
PCL as a percentage of loans and acceptances (2)	**0.61%**	(0.01)%	(0.33)%
Selected balance sheet data (average balances)			
Total assets	**183,079**	163,664	152,285
Earning assets	**146,966**	140,570	138,793
Loans and acceptances	**67,257**	54,147	41,526
Securities purchased under resale agreements	**14,123**	15,844	22,165
Securities	**54,973**	63,716	69,557
Economic equity	**7,013**	3,571	3,841

(1) Taxable equivalent basis.

(2) Corporate Banking only.

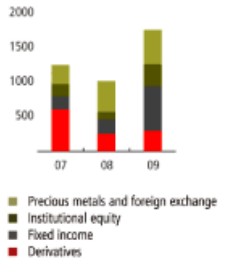
C38 Global corporate and investment banking revenue

$ millions



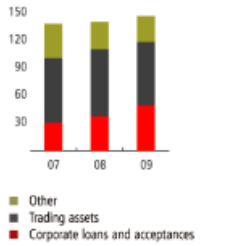
C39 Global capital markets revenue

$ millions



C40 Good asset growth

$ billions



Global Capital Markets

Total revenues increased 73% to a record $1,764 million. Interest income from trading operations rose slightly, as higher interest from trading assets was largely offset by lower tax-exempt dividend income. Other income increased 144% reflecting strong growth in trading revenues in almost every business line. Record revenues were earned in the fixed income, precious metals and equities businesses and the foreign exchange business generated its second highest revenues.

Non-interest expenses

Non-interest expenses were $1,072 million in 2009, a 14% increase from last year, due primarily to higher performance-related compensation and legal provisions. Salaries, technology costs and support costs also increased to assist business growth. Performance-related compensation increased $30 million, ($116 million before the impact of the deferral resulting from the change in plan design) in line with improved performance.

Credit quality

The provision for credit losses in Scotia Capital was $338 million in 2009, comprised of $301 million in specific provisions and a $37 million sectoral provision related to the automotive sector, compared to a net recovery of $5 million last year. Significantly higher provisions were incurred in the United States and Canada this year.

Outlook

In 2010, Scotia Capital is expected to deliver strong earnings, but is unlikely to match the extraordinary trading results achieved in 2009.

In Global Capital Markets (GCM), some trading businesses are likely to face more normalized market conditions. Nevertheless, GCM should benefit from growth in the product lines and sectors in which it has invested. In Global Corporate and Investment Banking (GCIB), there may be more activity in mergers and acquisitions which could benefit advisory fees and lending volumes.

Loan loss provisions in the corporate credit portfolio are expected to improve.

Scotia Capital will continue to manage operating costs closely, while making prudent investments to provide sustainable long-term growth.

Other

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

Financial performance

The Other segment had a net loss of $1,070 million in 2009, compared to a net loss of $557 million in 2008.

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 $288 million in 2009, compared to $416 million last year.

Revenues

Net interest income was negative $1,657 million this year, compared to negative $1,185 million in 2008. This was mainly due to higher costs associated with managing the Bank's interest rate risk, and the negative impact of relatively higher term funding costs compared to the declining wholesale rates used for transfer pricing with the business segments. These were partly offset by favourable changes in the fair value of financial instruments used for asset/ liability management.

Other income was $232 million, compared to $139 million last year. The increase was mainly attributable to growth in securitization revenues, higher net gains on securities, and an improvement in the valuation of financial instruments.

Non-interest expenses

Non-interest expenses increased by $37 million from last year to $130 million, mainly from higher costs associated with asset securitizations.

Credit quality

The provision for credit losses of $127 million in 2009 was entirely from an increase in the general allowance. There were no provisions for credit losses in 2008.

Income taxes

The provision for income taxes includes the elimination of the gross-up of tax-exempt income, which was $128 million lower than last year.

Outlook

Net income should improve in 2010. The Bank expects an improvement in net interest income, and lower writedowns on securities given improved equity markets. In addition, general loan loss provisions are anticipated to be lower. These favourable trends will likely be partly offset by lower securitization revenues.

g **T27** Other financial performance

($ millions)	2009	2008	2007
Net interest income(1)	**$ (1,657)**	$ (1,185)	$ (679)
Other income	**232**	139	627
Provision for (recovery of) credit losses	**127**	—	(25)
Non-interest expenses	**130**	93	143
Income taxes(1)	**(612)**	(582)	(276)
Net income	**$ (1,070)**	$ (557)	$ 106

(1) Includes elimination of the income gross-up reported in net interest income and provision for income taxes in Canadian Banking, International Banking and Scotia Capital to arrive at the amount reported in the Consolidated Statement of Income (2009–$288; 2008–$416; 2007–$531).

Risk Management

Scotiabank has a strong, disciplined risk management culture. Risk management is a strategic priority of the Bank, and is a responsibility shared by all of its employees. The Bank has a well-established risk governance structure, supported by an experienced senior management team and a centralized risk management group that is independent of the business lines.

As a result of its focus on risk management, the Bank had relatively modest exposure to the higher risk asset classes that precipitated the economic downturn. Its credit portfolio is diversified across business lines, countries, products, and industries; while market and liquidity risks are well within approved limits.

In 2009, the Bank conducted a self-assessment against the Final Report of the Institute of International Finance (IIF) Committee on Market Best Practices, and provided the Board of Directors with a report of its findings. This self-assessment confirmed that the Bank has a robust, enterprise-wide risk management framework in place and its risk management practices are considered a core strength. In alignment with industry developments, the Bank continued to evolve certain policies related to stress testing, model risk management, and liquidity risk management. As well, the risk appetite framework was further enhanced and two new committees were formed: Operational Risk and Stress Testing.

Overview

Risk, to varying degrees, is present in all business activities of a financial services organization. Therefore 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 strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

The Bank has comprehensive risk appetite and risk management frameworks 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

These frameworks are applied on an enterprise-wide basis and supported by a strong, disciplined risk management culture.

Risk governance

The Bank's risk management governance structure begins with oversight by the Board of Directors, either directly or through its committees to ensure that decision-making is aligned with the Bank's risk appetite. The Board receives regular updates on the key risks of the Bank, and approves key risk policies, limits, strategies, and risk appetite. The Bank's Internal Audit department reports independently to the Board (through the Audit and Conduct Review Committee) on the effectiveness of the risk governance structure and risk management framework.

Executive management, and in particular the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), are responsible for risk management under the direct oversight of the Board. Decision-making is highly centralized through a number of senior executive risk management committees that are chaired by the CEO, the CRO or other senior executives. Committee structures and key accountabilities are outlined on page 63. The CRO maintains independent access to the Board and oversees the activities of both Group Treasury and Global Risk Management which in turn provide oversight of credit, market, liquidity, structural foreign exchange, structural interest rate, and operational risks.

The Bank's Global Risk Management group is responsible for the design and application of the Bank's risk appetite and risk management frameworks, and is independent of the Bank's business units. These frameworks are integrated with the Bank's strategies and business planning processes. The effectiveness of these frameworks is enhanced by active participation of the Board of Directors, senior executives and business line management.



Risk appetite framework

The Bank's risk appetite framework governs risk taking activities on an enterprise-wide basis. It consists of four components as shown in the diagram above, and combines qualitative as well as quantitative terms of reference to guide the Bank in determining the amount and types of risk it wishes to undertake.

Risk principles

Risk principles provide the qualitative foundation of the risk appetite framework, and include the promotion of a robust risk culture, the accountability for risk by the business lines, the independent oversight of risk by Global Risk Management, the avoidance of excessive risk

concentrations, and the requirement that risks be clearly understood, measurable, and manageable.

Strategic principles

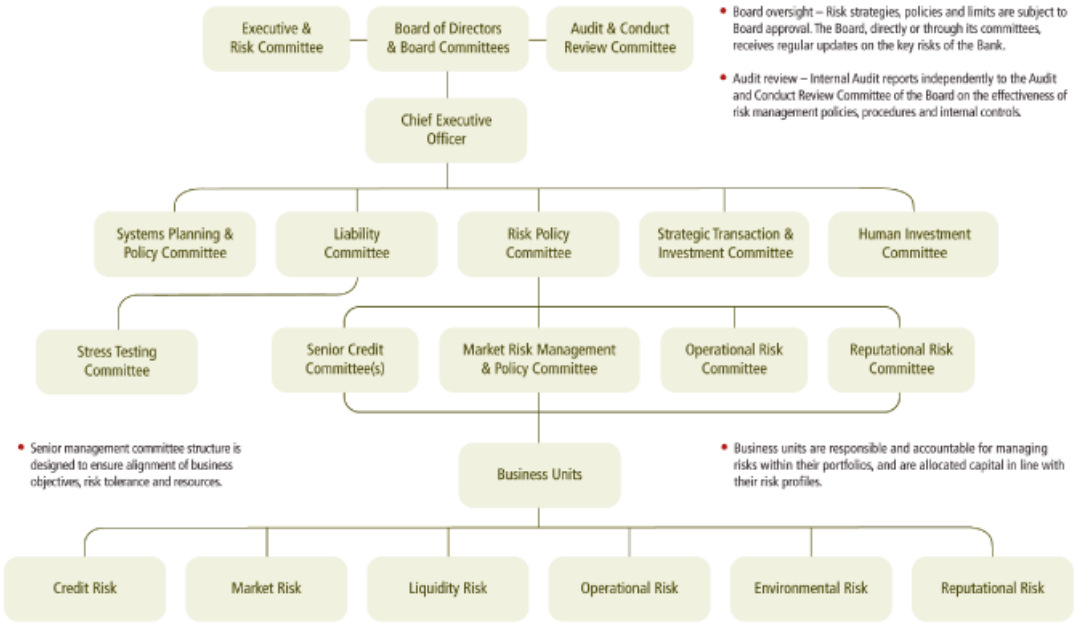
Strategic principles are values and priorities that guide business decisions. The Bank's key strategic principles influencing its risk appetite are:

- placing emphasis on diversity, quality and stability of earnings,
- focusing on core businesses by leveraging competitive advantages, and
- making disciplined and selective strategic investments.

Governing financial objectives

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

Scotiabank's risk governance structure



Executive Committees:

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

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

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

Senior Management Committees:

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

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

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

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

Human Investment Committee: reviews and approves all senior management appointments and the staffing of key positions, as well as broad compensation issues.

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

Reputational Risk Committee: upon referral from business lines or risk committees, reviews business activities, initiatives, products 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.

Risk appetite measures

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



Risk management framework

The Bank's risk management framework is applied on an enterprise-wide basis. The risk management programs of subsidiaries conform in all material respects to the Bank's risk management framework, although the actual execution of their programs may be different. For new acquisitions, or situations where control of a subsidiary has been recently established, the Bank assesses existing risk management programs and, if necessary, develops an action plan to make improvements in a timely fashion.

The framework has four main components as shown in the diagram above. Each component is regularly reviewed and updated to ensure consistency with risk-taking activities, and relevance to the business and financial strategies of the Bank.

Strategies, policies & limits

Within the risk management framework, strategies and policies establish the governance and risk management culture over the Bank's risk taking activities.

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

Policies apply to specific types of risk or to the activities that are used to measure and control risk exposure. They are based on recommendations from risk management, audit, business lines, and senior executive management. They also reflect industry best practices and requirements of regulatory authorities.

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

Guidelines

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

Processes & standards

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

Measurement, monitoring and reporting

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

The Bank also applies stress testing programs at both the risk level, and enterprise-wide level to estimate the potential impact on the Bank's income and capital as a result of significant changes in market conditions, credit environment, liquidity demands, or other risk factors. Each program is developed with input from a broad base of stakeholders, and results are integrated into management decision making processes for capital, funding, market risk limits, and credit risk strategy. Enterprise-wide stress testing is also integrated into the strategic planning process.

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

Reporting tools aggregate measures of risk across products and businesses to ensure compliance with policies, limits, and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the portfolio. This information is used by the Board and senior executive management to understand the Bank's risk profile and the performance of the portfolio. A comprehensive summary of the Bank's risk profile and performance of the portfolio against defined goals is presented quarterly to the Executive and Risk Committee of the Board of Directors.

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

Basel II

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

- Pillar 1 stipulates the methodologies and parameters that must be applied to calculate minimum capital requirements.
- Pillar 2 introduces the requirement for formal internal assessment of capital adequacy in relation to strategies, risk appetite, and actual risk profile. Regulators are required to review this internal capital adequacy assessment process (ICAAP – for further discussion, refer to the Capital Management section on page 38).
- Pillar 3 enhances public disclosure (both quantitative and qualitative) of specific details of risks being assumed, and how capital and risk are being managed under the Basel II framework.

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

Credit risk

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

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

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

- The objectives of the credit risk strategy are to ensure that:
  - target markets and product offerings are well defined at both the enterprise-wide and business line levels;
  - the risk parameters for new underwritings and for the portfolios as a whole are clearly specified; and
  - transactions, including origination, syndication, loan sales and hedging, are managed in a manner that is consistent with the Bank's risk appetite.
- The credit risk policy articulates the credit risk management framework, including:
  - aggregate limits, beyond which credit applications must be escalated to the Board for approval; and
  - single name/aggregation exposures, beyond which exposures must be reported to the Board.

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

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

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

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

Risk measures

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

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

(i) credit risk rating methodologies and parameters are appropriately designed and developed, independently validated, and regularly reviewed; and

(ii) the review and validation processes represent an effective challenge to the design and development process.

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

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

Commercial and corporate

Adjudication

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

- the borrower's management;
- the borrower's current and projected financial results and credit statistics;

- the industry in which the borrower operates;
- economic trends; and
- geopolitical risk.

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

A separate risk rating is also assigned at the facility level, taking into consideration additional factors, such as security, seniority of claim, structure, term and any other forms of credit risk mitigation that affect the amount of potential loss in the event of a default of the facility. Security typically takes the form of charges over inventory, receivables, real estate, and operating assets when lending to corporate and

commercial borrowers; and cash or treasuries for trading lines such as securities lending, repurchase transactions, and derivatives. The types of acceptable collateral, and related valuation processes are documented in risk management policies and manuals. Other forms of credit risk mitigation include third party guarantees and, in the case of derivatives facilities, master netting agreements.

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

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

The credit adjudication process also uses a risk-adjusted return on equity profitability model to ensure that the client and transaction structure offers an appropriate return for a given level of risk. For the corporate portfolio, and the large borrowers in International, the Loan Portfolio Management Group reviews the profitability model results, together with external benchmarks, and provides an opinion on the relative return and pricing of each transaction above a minimum threshold.

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

g **T28** Internal rating scale(1) and mapping to external rating agencies

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

(1) Applies to non-retail portfolio.

g **T29** Credit risk assessment of exposures
Non-retail AIRB portfolio(1)

As at October 31, 2009	Exposure at default(3) ($ millions)	Exposure Weighted Average PD (%)(4)	Exposure Weighted Average LGD (%)(5)	Exposure Weighted Average RW (%)(6)
Investment grade(2)	188,722	0.10	26	16
Non-investment grade	42,486	0.86	39	65
Watch list	5,204	25.85	41	211
Default(7)	1,683	100.00	43	297
Total	238,095	1.50	29	31
Total as at October 31, 2008	254,510	0.65	34	37

(1) Excludes securitization exposures.

(2) Includes $43.5 (2008 – $36.3) billion government guaranteed mortgages.

(3) After credit risk mitigation.

(4) PD – Probability of Default.

(5) LGD – downturn Loss Given Default including a certain conservative factor as per Basel accord.

(6) RW – Risk Weight.

(7) Gross defaulted exposures, before any related allowances. Defaulted exposures under Basel II definition may be higher than those under accounting definition.

Traded Products

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

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

Most traded products transactions benefit from credit mitigation techniques, such as netting and collateralization, which are taken into

consideration in the calculation of counterparty credit risk exposure. A master netting agreement allows for a single net settlement of all transactions covered by that agreement in the event of a default or early termination of the transactions. Collateral agreements with a counterparty allow for variation margin to be called if total uncollateralized mark-to-market exposure exceeds an agreed upon threshold.

Investment grade counterparties account for approximately 92% of the credit risk amount arising from the Bank's derivative transactions. Approximately 74% of the Bank's derivative counterparty exposures are to bank counterparties. After taking into consideration, where applicable, netting and collateral arrangements, no net credit risk amount arising from traded products transactions with any single counterparty was considered material to the financial position of the Bank as at October 31, 2009:

- no exposure to a non-investment grade counterparty exceeded $170 million pre-tax;
- no exposure to a corporate counterparty exceeded $174 million pre-tax.

Risk ratings

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

IG codes and external agency ratings is shown in Table 28.

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

Credit risk and capital

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

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

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

(i) long-run estimation of PD, which requires that PD estimates capture average default experience over a reasonable mix of high-default and low-default years of the economic cycle;

(ii) downturn estimation for LGD and EAD, which requires that these estimates appropriately reflect conditions observed during periods of economic stress; and

(iii) the addition of an adequate level of conservatism, which should reflect the statistical uncertainty inherent in historical estimates.

These risk measures are used in the calculation of regulatory capital requirements based on formulas specified by the Basel framework. The credit quality distribution of the Bank's AIRB non-retail portfolio is shown in Table 29.

Consumer

Adjudication

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

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

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

Risk ratings

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

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

Canadian retail

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

g **T30** Retail loan probability of default scale

Category of PD Grades	PD Range
Very low	0.0000% - 0.2099%
Low	0.2100% - 0.4599%
Medium	0.4600% - 3.1999%
High	3.2000% - 17.2899%
Very high	17.2900% - 99.9999%
Default	100%

g **T31** Credit risk assessment of exposures – Retail AIRB portfolio

As at October 31, 2009	Exposure at default (EAD)(1) ($ millions)	Exposure Weighted Average PD (%)(2)(5)	Exposure Weighted Average LGD (%)(3)(5)	Exposure Weighted Average RW (%)(4)(5)
Very low	75,362	0.09	21	4
Low	18,601	0.36	37	14
Medium	22,748	1.07	47	33
High	2,297	8.24	52	86
Very high	867	25.60	83	221
Default	564	100.00	55	—
Total	120,439	1.13	30	14
Total as at October 31, 2008	107,548	0.77	30	11

(1) After credit risk mitigation.

(2) PD – Probability of Default.

(3) LGD – Loss Given Default.

(4) RW – Risk Weight

(5) Exposure at default used as basis for estimated weightings.

(6) Gross defaulted exposures, before any related allowances.

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

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

Fifteen PD bands are calculated for each retail portfolio, which are then summarized into fewer bands as shown in Table 30.

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

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

These risk measures are then converted into regulatory capital requirements by means of formulas specified by the Basel Committee. The credit quality distribution of the Bank's AIRB retail portfolio is shown above in Table 31.

International retail

International retail credit portfolios (the Bank does not have any U.S. retail branches) consist of the following components:

- Residential mortgages consist of conventional and high ratio residential mortgages;
- Qualifying revolving consists of all credit cards, lines of credit and overdrafts;
- Other retail consists of term loans.

Market risk

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

Interest rate risk

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

Credit spread risk

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

Foreign currency risk

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

Equity risk

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

Commodity risk

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

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

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

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

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

Risk measurement summary

Value at risk

Value at Risk (VaR) is a method of measuring market risk based upon a common confidence interval and time horizon. It is a statistical estimate of expected potential loss that is derived by translating the riskiness of any financial instrument into a common standard. The Bank calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios. This means that about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. The Bank calculates general market risk and equity specific risk VaR using historical simulation based on 300 days of market data. For debt specific risk VaR, the Bank uses a combination of Monte Carlo and historical simulation. Changes in VaR between reporting periods are generally due to changes in levels of exposure, volatilities and/or correlations among asset classes. VaR is also used to evaluate risks arising in certain funding and investment portfolios. Back testing is also an important and necessary part of the VaR process, by validating the quality and accuracy of the Bank's VaR model. The Board reviews VaR results quarterly.

Stress testing

VaR measures potential losses in normally active markets. An inherent limitation of VaR is that it gives no information about how much losses could exceed their expected levels. Accordingly, stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can easily absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis. The Bank also evaluates risk in its investment portfolios on a monthly basis, using stress tests based on risk factor sensitivities and specific market events. The stress testing program is an essential component of the Bank's comprehensive risk management framework which complements the current VaR methodology and other risk measures and controls employed by the Bank. The Board reviews stress testing results quarterly.

Sensitivity analysis and simulation modeling

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

Gap analysis

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

Funding and investment activities

Market risk arising from the Bank's funding and investment activities is identified, managed and controlled through the Bank's asset-liability management processes. The LCO meets weekly to review risks and opportunities, and evaluate performance including the effectiveness of hedging strategies.

Interest rate risk

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

Interest rate risk exposure calculations are generally based on the earlier of contractual re-pricing or

maturity of on-balance sheet and off-balance sheet assets and liabilities, although certain assets and liabilities such as credit cards and deposits without a fixed maturity are assigned a maturity profile based on the longevity of the exposure. Expected prepayments from loans and cashable investment products are also incorporated into the exposure calculations. Common shareholders' equity is assumed to be non-interest rate sensitive.

Table 32 shows the breakdown of the Canadian dollar and foreign currency interest rate gaps as at October 31, 2009, and Chart 41 illustrates trends in one-year interest rate gaps. In 2009, the asset gap resulting from the continued consumer preference for variable-rate mortgages narrowed slightly. The Bank maintained a one-year liability gap in foreign currencies throughout fiscal 2009.

Table 33 shows the before-tax impact of a 100 and 200 basis point shift on annual income and economic value of shareholders' equity. Based on the Bank's interest rate positions at year-end 2009, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income before tax by approximately $220 million over the next 12 months. During fiscal 2009, this measure ranged between $142 million and $220 million. This same increase in interest rates would result in a before-tax decrease in the present value of the Bank's net assets of approximately $275 million. During fiscal 2009, this measure ranged between $109 million and $275 million.

g **T32** Interest rate gap

Interest rate sensitivity position(1) As at October 31, 2009 ($ billions)	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	Total
Canadian dollars					
Assets	$ 176.4	$ 21.1	$ 79.1	$ 7.0	$ 283.6
Liabilities	144.0	37.3	86.8	15.5	283.6
Gap	32.4	(16.2)	(7.7)	(8.5)	—
Cumulative gap	32.4	16.2	8.5	—	
Foreign currencies					
Assets	$ 138.9	$ 19.1	$ 25.1	$ 29.8	$ 212.9
Liabilities	134.3	26.1	11.7	40.8	212.9
Gap	4.6	(7.0)	13.4	(11.0)	—
Cumulative gap	4.6	(2.4)	11.0	—	
Total					
Gap	$ 37.0	$ (23.2)	$ 5.7	$ (19.5)	
Cumulative gap	37.0	13.8	19.5	—	
As at October 31, 2008:					
Gap	$ 22.8	$ (10.0)	$ 11.5	$ (24.3)	
Cumulative gap	22.8	12.8	24.3	—	

(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.

g **T33** Structural interest sensitivity

	2009		2008	
($ millions)	**Economic Value of Shareholders' Equity**	**Annual Income**	Economic Value of Shareholders' Equity	Annual Income
Before-Tax Impact of				
100bp increase in rates	**(275)**	**220**	(553)	133
100bp decrease in rates	**253**	**(261)**	513	(148)
Before-Tax Impact of				
200bp increase in rates	**(510)**	**447**	(1,096)	257
200bp decrease in rates	**812**	**(585)**	1,048	(296)

Foreign currency risk

Foreign currency risk in the Bank's funding and investment activities arises primarily from the Bank's net investments in self-sustaining foreign operations as well as foreign currency earnings in its domestic and remitting foreign branch operations.

The Bank's foreign currency exposure to its net investments in self-sustaining foreign operations is controlled by a Board-approved limit. This limit considers factors such as potential volatility to shareholders' equity as well as the potential impact on capital ratios from foreign exchange fluctuations. On a quarterly basis, the LCO reviews the Bank's exposures to these net investments and determines the appropriate hedging strategies. Hedging activity may consist of funding the investments in the same currency or using other financial instruments, including derivatives.

In accordance with GAAP, foreign currency translation gains and losses from net investments in self-sustaining foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income within shareholders' equity. However, the Bank's regulatory capital ratios are not materially affected by these foreign exchange fluctuations because the risk-weighted assets of the foreign operations tend to move in a similar direction.

The Bank is also subject to foreign currency translation risk on the earnings of its foreign operations which are not self-sustaining. The Bank forecasts foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, over a number of future fiscal quarters. The LCO also assesses economic data trends and forecasts to determine if some or all of the estimated future foreign currency revenues and expenses should be hedged. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency

options and swaps. Certain of these economic hedges may not qualify for hedge accounting resulting in a potential for a mismatch

C41 Interest rate gap

$ billions, one-year interest rate gap



in the timing of the recognition of economic hedge gains/losses and the underlying foreign earnings translation gains/losses. In accordance with GAAP, foreign currency translation gains and losses from positions in operations that are not self sustaining are recorded directly in earnings.

As at October 31, 2009, a one per cent increase (decrease) in the Canadian dollar against all currencies in which the Bank operates, decreases (increases) the Bank's before-tax annual earnings by approximately $32 million in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar would increase (decrease) the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately $187 million as at October 31, 2009, net of hedging.

Investment portfolio risks

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

As at October 31, 2009, the fair value of the Bank's investment portfolios was above cost by $828 million (after related derivative and other hedge amounts), compared to an unrealized loss of $1,320 million at the end of fiscal 2008.

Trading activities

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

Market risk arising from the Bank's trading activities is managed in accordance with Board-approved policies, and aggregate VaR and stress testing limits. The quality of the Bank's VaR is validated by regular backtesting analysis, in which the VaR is compared to theoretical and actual profit and loss results.

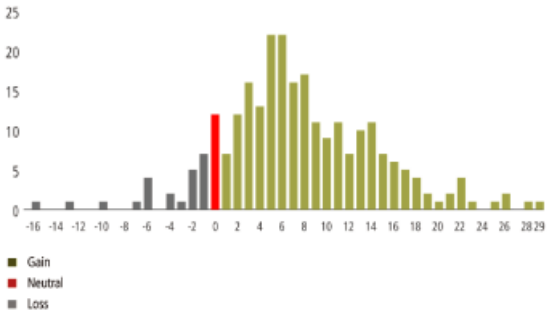
Trading portfolios are marked to market in accordance with the Bank's valuation policies. Positions are marked to market daily and valuations are independently reviewed by back office or Global Risk Management units on a regular basis. These units also provide profit and loss reporting, as well as VaR and limit compliance reporting to business unit management and executive management for evaluation and action to be taken, where appropriate. In certain situations, the product valuation process requires the application of a valuation adjustment. For a discussion of valuation considerations, refer to the discussion of the fair value of financial instruments on page 78.

In fiscal 2009, the one-day VaR for trading activities averaged $17.0 million, compared to $16.8 million in 2008. Higher interest rate, foreign exchange and commodity risk were partially offset by an increase in the diversification between risk factors. Table 34 shows VaR by risk factor.

Chart 42 shows the distribution of daily trading revenue for fiscal 2009. Trading revenue averaged $5.8 million per day, compared to $2.3 million for 2008. The increase was due to improved revenues across all business lines, particularly securities trading. Revenue was positive on more than 89% of trading days during the year, compared to 77% in 2008. During the year, the largest single day loss was $16 million which occurred on November 20, 2008, compared to a VaR of $28.9 million.

C42 Trading revenues(1)

period ending October 31, 2009

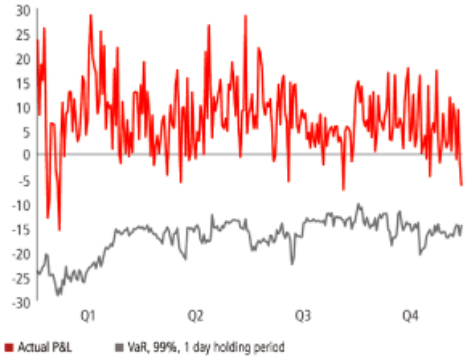


(1) Taxable equivalent basis; refer to non-GAAP measures on page 27. Amounts exclude certain large items that cannot be properly ascribed to any one day and would distort the comparison.

(1) Taxable equivalent basis; refer to non-GAAP measures on page 27. Amounts exclude certain large items that cannot be properly ascribed to any one day and would distort the comparison.

C43 Daily trading revenue[1] vs. VaR[2]

$ millions, November 1, 2008, to October 31, 2009



(1) Amounts exclude certain large items that cannot be properly ascribed to any one day and would distort the comparison.
(2) Taxable equivalent basis; refer to non-GAAP measures on page 27.

(1) Amounts exclude certain large items that cannot be properly ascribed to any one day and would distort the comparison.

(2) Taxable equivalent basis; refer to non-GAAP measures on page 27.

g **T34** One-day VaR by risk factor

($ millions)	2009 Year end	2009 Avg	2009 High	2009 Low	2008 Year end	2008 Avg	2008 High	2008 Low
Interest rate	**15.6**	**16.3**	**26.1**	**10.9**	23.8	14.2	25.0	9.7
Equities	**3.0**	**4.6**	**9.3**	**2.0**	4.9	4.8	24.9	2.1
Foreign exchange	**3.4**	**2.2**	**4.7**	**0.5**	1.7	1.1	4.7	0.4
Commodities	**3.7**	**3.5**	**5.6**	**1.9**	3.4	3.1	4.7	1.9
Diversification	**(10.5)**	**(9.6)**	**N/A**	**N/A**	(7.3)	(6.4)	N/A	N/A
All-Bank VaR	**15.2**	**17.0**	**28.9**	**10.2**	26.5	16.8	30.4	10.8

Calculation of market risk capital for trading

The assessment of market risk for trading activities includes both general market risk and specific risk. General market risk is defined as the risk of loss arising from adverse changes in market prices. Specific risk is defined as the risk of loss caused by an adverse price movement of a debt or equity instrument due principally to factors related to the issuer. Under the Basel II capital adequacy guidelines, the specific risk capital and general market risk capital requirements apply to interest rate risk and equity risk. The general market risk capital requirement also applies to commodities risk and foreign exchange risk.

For all material trading portfolios, the Bank applies its internal Value at Risk (VaR) model to calculate the capital charge for general market risk and specific risk. The attributes/ parameters of this model are described in the Risk Measurement Summary on page 69. The Office of the Superintendent of Financial Institutions (OSFI) has approved the Bank's internal VaR model for the determination of its General Market Risk Capital and Equity and Debt Specific Risk Capital requirements.

For non-material trading portfolios, the Bank applies the Standardized Approach for calculating general market risk and debt specific risk capital. The standardized method uses a "building block" approach with the capital charge for each risk category calculated separately.

The Bank is assessing the quantitative impact on market risk capital of the new trading book rules under the Basel II market risk framework.

Derivative instruments and structured transactions

Derivatives

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

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

Total notional amounts of derivatives as at October 31, 2009, were $1,540 billion compared to $1,562 billion a year ago. The decrease was driven by foreign currency translation declines, as the Canadian dollar strengthened relative to U.S. dollar at the year end, and lower volumes in foreign exchange contracts offset by volume growth in interest rate contracts. With respect to credit derivatives, notional amounts were $91 billion as at October 31, 2009, down $30 billion from a year ago, primarily due to foreign currency translation and a reduction in credit trading activities. Approximately 58% of the credit derivative notional amounts represent derivative contracts where the Bank has purchased credit protection and the balance where the Bank has sold credit protection as a result of its trading operations. The net long (purchased) credit protection from credit derivatives in the trading book is generally offsetting net long loan positions held for trading.

The Bank also uses credit derivatives in its investment and loan portfolios. Credit protection is sold as an alternative to bond or loan assets, while credit protection is bought to manage credit exposures in its non-trading loan portfolio. As at October 31, 2009, the notional value of credit default swaps sold in the investment and credit portfolios was $0.1 billion, and the notional value bought as protection was $1.3 billion.

Structured transactions

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

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

Liquidity risk

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

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable the core businesses to continue to generate revenue, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee (LCO) provides senior management oversight of liquidity risk and meets weekly to review the Bank's liquidity profile.

The key elements of the liquidity risk framework are:

- Measurement and modeling – the Bank's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short-term horizons and a minimum level of core liquidity.
- Reporting – Global Risk Management provides independent oversight of all significant liquidity risks, supporting the LCO with analysis, risk measurement, stress testing monitoring and reporting. They provide senior management and the LCO with a series of daily, weekly, monthly and quarterly reports of liquidity risk exposures.
- Stress testing – the Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry and Bank-specific disruptions on the Bank's liquidity position. Liquidity stress testing has many purposes including:
  - Helping the Bank to understand the potential behavior of various positions on its balance sheet in circumstances of stress;
  - Based on this knowledge, facilitating the development of risk mitigation and contingency plans; and
  - Conveying an approximate range of risk.

  The Bank's liquidity stress 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 Bank also performs industry standard stress tests required by regulators and rating agencies. The stress test results are reviewed at senior levels of the organization and are considered in making liquidity management decisions.
- Contingency planning – the Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to 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. A contingency plan is maintained both at the parent level as well as for major subsidiaries.
- Funding diversification – the Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, term and geographic market.
- Core liquidity – the Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events. The Bank also maintains liquid assets to support its intra-day settlement obligations in payment, depository and clearing systems.

Given financial market turmoil over the past two years, regulators around the world have been focusing their attention on liquidity risk management. This may lead to new or revised regulatory requirements for all financial institutions. The Bank is closely monitoring these developments.

Liquidity profile

The Bank maintains large holdings of liquid assets to support its operations, as shown in Table 35. These assets generally can be sold or pledged to meet the Bank's obligations. During the year, the Bank significantly improved its liquidity position as liquid assets were $146 billion as at October 31, 2009 (2008 – $106 billion), equal to 29% (2008 – 21%) of total assets. The mix of these assets between securities and other liquid assets, including cash and deposits with banks, was 69% and 31%, respectively (2008 – 64% and 36%, respectively).

g **T35** Liquidity

As at October 31 ($ millions)	2009	2008	2007	2006	2005
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	**$ 1,223**	$ 498	$ 502	$ 469	$ 481
Deposits with other banks	**1,371**	1,654	4,152	2,445	1,770
Securities	**81,613**	46,558	53,429	53,762	39,361
	84,207	48,710	58,083	56,676	41,612
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	**6,170**	3,064	4,503	3,839	3,142
Deposits with other banks	**34,513**	32,102	20,039	16,623	15,112
Securities	**19,649**	21,298	19,809	20,824	22,180
Call and short loans	**1,538**	1,087	874	5	—
	61,870	57,551	45,225	41,291	40,434
Total liquid assets					
Cash and deposits with Bank of Canada	**7,393**	3,562	5,005	4,308	3,623

Deposits with other banks	**35,884**	33,756	24,191	19,068	16,882
Securities	**101,262**	67,856	73,238	74,586	61,541
Call and short loans	**1,538**	1,087	874	5	—
	$146,077	$106,261	$103,308	$97,967	$82,046
Liquid assets as a % of total assets	**29.4%**	20.9%	25.1%	25.8%	26.1%

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, 2009, total assets pledged or sold under repurchase agreements were $84 billion (2008 – $82 billion).

Funding

The Bank ensures that its funding sources are well diversified. Funding source concentrations are regularly monitored and analyzed by type and by industry. The principal sources of funding are capital, core deposits from retail and commercial clients through the Canadian and international branch network, and wholesale funding. The Bank also securitizes mortgages through the Canada Mortgage Bonds program as an alternative source of funding, and for liquidity and asset/ liability management purposes. To ensure that the Bank does not place undue reliance on a single entity as a funding source, the Bank maintains a limit on the amount of deposits it will accept from any one entity.

Core funds, represented by capital and core deposits of the Bank's retail and commercial clients, were $243 billion as at October 31, 2009, versus $222 billion last year (see Chart 44). This increase was attributable primarily to higher balances of demand and notice deposits and personal term deposits. As at October 31, 2009, the Bank's core funds represented 49% of total funding, compared to 44% last year.

During the global financial turbulence of the past year, the Bank's funding programs performed well and as at October 31, 2009, funding markets had largely returned to a normal state.

Contractual obligations

Table 36 provides aggregated information about the Bank's contractual obligations as at October 31, 2009, 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), pension and other retirement benefit obligations, lending commitments and other short-term financing arrangements which are discussed in Notes 10, 19, 23 and 24, respectively, of the 2009 Consolidated Financial Statements.

The Bank prudently diversifies its wholesale funding activities by using a number of different funding programs to access the global financial markets and extend its maturity profile, as appropriate. In 2009 the Bank issued approximately $11 billion of senior term funding in the domestic, United States and other markets. The outstanding balance of the Bank's subordinated debentures increased in 2009 with two new issues. Partially offseting this increase was the redemption of an existing issue and partial repurchases of another issue.

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 $243 million in 2009 (2008 – $217 million). Refer to Note 23 of the 2009 Consolidated Financial Statements.

Two major outsourcing contracts have been entered into by the Bank. The largest is a seven- year contract with IBM Canada entered into in 2001 to manage the Bank's domestic computer operations, including data centers, branches, Automated Banking Machines, and desktop computing environment. The contract was expanded in 2005 to also include the computer operations for the Caribbean & Central America, and Mexico. The contract for Canadian operations was renewed in 2007 and is now extended until 2013, co-terminus with the Mexico and Caribbean & Central America contracts.

The second is a three-year contract, with two optional five-year renewals, entered into in 2003 with Symcor Inc. to manage the Bank's cheque and bill payment processing, including associated statement and report printing activities across Canada. The first of the five-year options has been exercised. These outsourcing contracts are cancellable with notice.

Capital expenditures

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

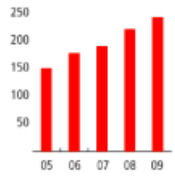
Total capital expenditures in 2009 are estimated to be $224 million, a decrease of 30% from 2008. The decrease is primarily in Real Estate, $72 million or 35%, due to reduced spending on new locations. Technology spending decreased by $23 million or 20% due largely to the completion of a major project to upgrade branch equipment in Canada.

g **T36** Contractual obligations

($ millions)	Under 1 year	1-3 years	4-5 years	Over 5 years	Total
Term funding					
Wholesale deposit notes	14,750	6,028	4,681	120	**25,579**
Euro medium term notes	7,872	4,153	755	52	**12,832**
Subordinated debentures	—	—	250	5,637	**5,887**
Other long-term liabilities	592	736	437	1,186	**2,951**
Subtotal	23,214	10,917	6,123	6,995	**47,249**
Operating leases	197	302	176	183	**858**
Outsourcing obligations	198	411	301	121	**1,031**
Total	23,609	11,630	6,600	7,299	**49,138**

C44 Core funds

$ billions, October 31



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, processes and assessment methodologies to ensure that operational risk is appropriately identified and managed with effective controls. The governing principles of the Bank's operational risk management program include:

- Accountability in the individual business lines for management and control of the significant operational risks to which they are exposed.
- An effective organization structure through which operational risk is managed, including:
  - A Board of Directors responsible for sound corporate governance and which approves the Bank's Operational Risk Management Policy;
  - A senior level Operational Risk Committee chaired by the Group Head, Risk and Treasury which provides oversight of risk management;
  - Executive management who have clearly defined areas of responsibility;
  - A central unit in Global Risk Management responsible for developing and applying methods to identify, assess, and monitor operational risks, and report on risks as well as actual loss events;
  - Independent specialist units responsible for developing methods to mitigate specific components of operational risk, including codifying policies and processes required to control those specific risks;
  - Separation of duties between key functions; and
  - An independent internal audit department responsible for verifying that significant risks are identified and assessed, and for testing controls to ensure that overall risk is at an acceptable level.

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

- The Bank's risk control self-assessment program, which is managed by Global Risk Management's central operational risk unit, includes formal reviews of significant operations and processes to identify and assess operational risks. Scenario analysis has been successfully introduced to risk assessments as a tool that provides a more forward looking view of key risks. Overall, this program provides a basis for management to ensure that controls are functioning effectively. If controls are not effective, business line management develops action plans to mitigate risks. Results of these reviews are summarized and reported to executive management and the Board of Directors.
- The Bank's centralized operational loss event database, which is managed and maintained by the central operational risk unit, captures key information on operational losses. The scope of operational loss event data captured within the centralized database continues to be enhanced. This data is analyzed, benchmarked against external data, and reported to executive management and the Board of Directors to provide insight into operational risk exposure trends or significant metrics.
- Group Compliance leads a compliance risk program 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.
- The Bank's business continuity management policies 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 monitors units to ensure compliance with these policies.
- Risk mitigation programs, which use insurance policies to transfer the risk of high severity losses, where feasible and appropriate.

The Bank applies the Standardized Approach for calculating operational risk capital under the Basel II capital framework. Total capital is determined as the sum of capital for each of eight Basel defined business activities. The capital for each activity is the product of the relevant risk factor, as defined by Basel, applied to the gross income of each respective business activity. Progress is underway to prepare for the Advanced Measurement Approach.

Reputational risk

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

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

Reputational risk is managed and controlled throughout the Bank by codes of conduct, governance practices and risk management programs, policies, procedures and training. Many relevant checks and balances are outlined in greater detail under other risk management sections, particularly Operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Scotiabank Guidelines for Business Conduct, and in a manner that minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public, Corporate and Government Affairs and Compliance departments, and the Reputational Risk

Committee, are particularly oriented to the management of reputational risk.

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

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

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

Environmental risk

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

To safeguard the Bank and the interests of its stakeholders, Scotiabank has an environmental policy, which was updated and approved by the Bank's Board of Directors in October 2009. The policy guides day-to-day operations,lending practices, supplier agreements,the management of real estate holdings and external reporting practices. It is supplemented by specific policies and practices relating to individual business lines. In 2009, additional resources were added to assist with implementation of the Policy.

Environmental risks associated with the business operations of each borrower and any real property offered security are considered in the Bank's credit evaluation procedures. This includes an environmental assessment where applicable, and commentary where climate change would have a material impact (including regulatory, physical or reputational impacts) on the borrower. Global Risk Management has primary responsibility for establishing the related policies, processes and standards associated mitigating environmental risk in the Bank's lending activities. Decisions are taken in the context of the risk management framework discussed on page 64.

In the area of project finance, the revised Equator Principles have been integrated into the Bank's internal processes and procedures since 2006. These are environmental and social guidelines for project finance transactions with a capital cost of U.S.$10 million or higher, based on the policies of the International Finance Corporation, the private sector arm of the World Bank. The Equator Principles provide safeguards for sensitive projects to ensure protection of natural habitats and the rights of indigenous peoples, as well as safeguards against child and forced labour.

Environmental concerns also play a prominent role in shaping the Bank's real estate practices. The Real Estate Department adheres to an Environmental Compliance Policy to ensure responsible management of the Bank's real estate holdings. In addition, considerable recycling and resource management programs are in place in the Bank's corporate offices and branch networks. Internal tracking systems are in place with respect to energy use, greenhouse gas emissions (GHG) and paper consumption. In order to further reduce the Bank's environmental footprint, it has developed an internal Environmental Paper Policy and is in the process of developing and implementing more definitive management processes on energy.

To ensure it continues to operate in an environmentally responsible manner, the Bank monitors policy and legislative requirements through ongoing dialogue with government, industry and stakeholders in countries where it operates. Scotiabank has been meeting with environmental organizations, industry associations and socially responsible investment organizations with respect to the role that banks play to help address the issues of climate change, protection of biodiversity, promotion of sustainable forestry practices, and other environmental issues important to its customers and communities where it operates. The Bank has an ongoing process of reviewing its policies in these areas.

Scotiabank is also a signatory, participant and sponsor of the Carbon Disclosure Project in Canada, which provides corporate disclosure to the investment community on greenhouse gas emissions and climate change management. In 2009 Scotiabank was included on the Dow Jones Sustainability Index (DJSI)-(World), an annual review that recognizes the world's financial, social and environmental corporate leaders. The Bank was also named to the DJSI North America Index. For more information on Scotiabank's environmental policies and practices, please refer to

- the Bank's annual Public Accountability Statement/Corporate Social Responsibility Report, which is also available online at www.scotiabank.com;
- the Environment section of Scotiabank's website at www.scotiabank.com/environment; and
- Scotiabank's response to the Carbon Disclosure Project at www.cdproject.net.

Controls and Accounting Policies

Controls and procedures

Management's responsibility for financial information contained in this annual report is described on page 104.

Disclosure controls and procedures

The Bank's disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to the Bank's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

As of October 31, 2009, the Bank's management, with the participation of the CEO and CFO, evaluated the effectiveness of its disclosure controls and procedures, as defined under the rules adopted by the U.S. Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities, and have concluded that the Bank's disclosure controls and procedures are effective.

Internal control over financial reporting

Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. These controls include policies and procedures that:

(i.) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;

(ii.) 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

(iii.) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Bank's management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management assessed the effectiveness of internal control over financial reporting, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, and based on that assessment concluded that internal control over financial reporting was effective, as at October 31, 2009.

Changes in internal control over financial reporting

There have been no changes in the Bank's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting during the year ended October 31, 2009.

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 111 to 116 summarizes the significant accounting policies used in preparing the Bank's Consolidated Financial Statements. Certain of these policies require management to make estimates and subjective judgements that are difficult, complex, and often relate to matters that are inherently uncertain. The policies discussed below are considered to be particularly important to the presentation of the Bank's financial position and results of operations, because changes in the judgements and estimates could have a material impact on the Bank's Consolidated Financial Statements. These estimates are adjusted in the normal course of business to reflect changing underlying circumstances.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the probable credit losses in the portfolio of deposits with other institutions, loans to borrowers, acceptances and other indirect credit commitments, such as letters of credit and guarantees. Management undertakes regular reviews of credit quality to assess the adequacy of the allowance for credit losses. This process requires the use of estimates and subjective judgements at many levels. These subjective judgements include identifying credits that are impaired, and considering factors specific to individual credits, as well as portfolio characteristics and risks. Changes to these estimates or using other reasonable judgements and estimates could directly affect the provision for credit losses.

The allowance for credit losses is composed of specific, sectoral, and general allowances.

Specific allowances are an estimate of probable incurred losses related to existing impaired loans. In establishing specific allowances applicable to individual credit exposures, management first forms a judgement as to whether a loan is impaired. Loan impairment is recognized when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Once a loan is determined to be impaired, management estimates its net realizable value by making judgements relating to the timing of future cash flow amounts, the fair value of any underlying security pledged as collateral, costs of realization, observable market prices, and expectations about the future prospects of the borrower and any guarantors.

Management estimates specific allowances for certain homogenous portfolios, including residential mortgages, credit card loans and most personal loans on a group basis. This involves estimating the probable losses inherent in the portfolio by using a formulaic method that considers recent loss experience.

Specific provisions were higher in 2009 than in 2008, driven primarily by global economic conditions. Higher provisions were distributed across all business lines.

The general allowance is an estimate of probable incurred losses that are inherent in the portfolio of loans and loan commitments, but have not yet been specifically identified on an individual basis. Management establishes the general allowance through an assessment of quantitative

and qualitative factors. Using an internally developed model, management arrives at an initial quantitative estimate of the general allowance based on numerous factors, including historical average default probabilities, loss given default rates and exposure at default factors.

Material changes in any of these parameters or assumptions would affect the range of expected credit losses and, consequently, could affect the general allowance level. For example, if either the probability of default or the loss given default rates for the non-retail portfolio were independently increased or decreased by 10%, the model would indicate an increase or decrease to the quantitative estimate of approximately $103 million (2008 — $70 million). Senior management determines whether it is necessary to adjust the quantitative estimate for the general allowance to account for portfolio conditions not reflected in the historically based credit parameters used in the model. A qualitative assessment of the general allowance is made based on observable data, such as: economic trends and business conditions, portfolio concentrations, risk migrations and recent trends in volumes and severity of delinquencies and a component for the imprecision inherent in the model and model parameters. Management reviews the general allowance quarterly to assess whether the allowance is at the appropriate level in relation to the size of the portfolio, inherent credit risks and trends in portfolio quality.

The general allowance for credit losses as at October 31, 2009, was $1,450 million, an increase of $127 million from a year earlier. The increase was attributable to general economic conditions.

In the second quarter of 2009, the Bank recorded a sectoral allowance of $60 million to reflect the deterioration in the automotive industry. This sectoral allowance was established for specific adverse events and changes in economic conditions related to the automotive industry, even though the individual loans comprising the group are still classified as performing. These allowances are for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowance. The level of the sectoral allowance considers the probability of default, loss given default and expected exposure at default. During the remainder of the year, $16 million was reclassified to specific provisions for credit losses.

In 2009, the Bank adopted new accounting standards on the classification and impairment of financial assets (see page 111). The adoption of these standards resulted in a net increase to loans of $9,447 million and no net change to the total allowance for credit losses.

Fair value of financial instruments

In the current year, the Bank adopted the amendments to the Financial Instruments — Disclosure standard. These amendments to the standard require expanded disclosures of financial instruments and in particular with respect to disclosing all of its financial instruments carried at fair value into a hierarchy based on the determination of fair value. The valuation hierarchy is as follows:

- Level 1 — fair value is based on unadjusted quoted prices in active markets for identical instruments,
- Level 2 — fair value is based on models using inputs other than quoted prices that are observable for the instruments, or
- Level 3 — fair value is based on models using inputs that are not based on observable market data.

The classification of the Bank's assets and liabilities which are carried at fair value by the valuation hierarchy is reflected in Note 25 on pages 150 and 151.

All financial instruments are measured at fair value on initial recognition except certain related party transactions. Subsequent measurement of a financial instrument depends on its classification. Loans and receivables, certain securities and most financial liabilities are carried at amortized cost unless classified or designated as held for trading or available-for-sale at inception. All other financial instruments, including those designated as held-for-trading at inception, are carried at fair value.

Financial instruments in the Bank's trading portfolios are composed primarily of securities and derivatives. These trading instruments are carried at fair value on the Consolidated Balance Sheet, with changes in the fair values of trading instruments included in the Consolidated Statement of Income.

Securities designated as available-for-sale are recorded at fair value on the Consolidated Balance Sheet. Equity securities which do not have a quoted market price in an active market are measured at cost. The unrealized gains and losses as a result of changes in the fair values of available-for-sale securities are included in the Consolidated Statement of Comprehensive Income.

Derivatives used for asset/liability management are recorded at fair value on the Consolidated Balance Sheet. All changes in these derivative fair values other than those designated as cash flow hedges or net investment hedges are recorded in the Consolidated Statement of Income, while the latter flows through Other Comprehensive Income.

Fair value is defined as the amount of consideration that would be agreed upon in an arms-length transaction, other than a forced sale or liquidation, between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument is used subject to appropriate adjustments, supplemented as required with internal valuation models. Where quoted market prices are not available, the quoted price of similar financial instruments (i.e. with similar characteristics and risk profile) or internal models with observable market-based inputs are used to estimate the fair value.

Minimal management judgement is required for fair values calculated using quoted market prices or observable market inputs for models. Greater subjectivity is required when making valuation adjustments for financial instruments in inactive markets or when using models where observable parameters do not exist.

Trading securities, available-for-sale securities, and obligations related to securities sold short are normally valued using quoted market prices, including prices obtained from external fund managers and dealers.

To determine the fair value of financial instruments in a less active or inactive market where market prices are not readily observable due to low trading volumes or lack of recent trades, appropriate adjustments are made to available indicative prices to reflect the lack of liquidity in the market for the instruments. Where quoted prices or observable market data is not readily available, for example due to less liquid markets, management's judgement on valuation inputs is necessary to determine fair value.

Most derivatives are not exchange traded and are therefore normally valued using models which incorporate significant observable market parameters. Securities that are fair valued using models include certain types of asset-backed securities. Market inputs used for the fair value determination include observable interest rates, foreign exchange rates, credit spreads, equity prices, commodity prices and option volatilities.

Certain derivative and other financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more

quantitative analysis and management judgement. Where significant unobservable market data is used as a key input into the valuation of certain derivatives, the inception profit on those derivatives is deferred over the life of the derivative contract, or until the valuation inputs become observable. This amount was not material in fiscal 2009 and 2008.

Management also applies judgement in the selection of internal valuation models for financial assets and financial liabilities carried at fair value in trading and non-trading portfolios. This includes consideration of credit risk, liquidity and ongoing direct costs in the determination of the fair value of derivatives. Management therefore exercises judgement when establishing market valuation adjustments that would be required in order to arrive at the fair value. Valuation adjustments recorded against the fair value of financial assets and financial liabilities totaled $496 million as at October 31, 2009 (2008 — $273 million), net of any write-offs. These valuation adjustments are mainly due to counterparty credit risk considerations for derivative transactions.

Uncertainty in the estimates used in the models can affect the fair value and financial results recorded. Historically, the impact of any change in these estimates was not expected to be significant; however, in the recent volatile market conditions where significant and rapid changes in observable model inputs can occur, greater volatility in fair values derived from these models is possible.

Other-than-temporary impairment

Available-for-sale securities, except for equity securities which do not have a quoted market price in an active market, are recorded at fair value on the balance sheet. Any unrealized gains and losses on these available-for-sale securities are recorded in other comprehensive income until realized, at which time they are recorded in the Consolidated Statement of Income.

Management reviews the fair value of available-for-sale securities each quarter to determine whether a decline in fair value compared to cost or amortized cost is other than temporary. To assess whether an other than temporary impairment has occurred, management must make certain judgements and estimates, and consider factors such as the length of time and extent to which the fair value of a security has been below its cost or amortized cost, prospects for recovery in fair value, the issuer's financial condition and future prospects, and the Bank's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. Once management has determined that the security has experienced an other-than-temporary decline in value, the carrying value of the security is written down to its estimated fair value. To estimate fair value, management considers all of the data gathered during the impairment evaluation process, as well as the market liquidity and the Bank's plans for the security. Other-than-temporary impairment charges are recorded in net gains on securities, other than trading in the Consolidated Statement of Income.

Effective November 1, 2008, due to amendments made in August 2009 to the accounting standard on Financial Instruments — Recognition and Measurement, impairment losses on available-for-sale debt securities can be reversed up to the original carrying value under certain conditions. For fiscal 2009, no reversal was recorded.

As at October 31, 2009, the gross unrealized gains on available-for-sale securities recorded in accumulated other comprehensive income were $1,641 million (2008 — $818 million), and the gross unrealized losses were $628 million (2008— $2,046 million). Net unrealized gains (losses) were therefore $1,013 million (2008 — ($1,228 million)) before related derivative and other hedge amounts. The net unrealized gains (losses) after related derivative and other hedge amounts were $828 million (2008 — ($1,320 million)).

As at October 31, 2009, there were $3,307 million (2008 — $2,131 million) of available-for-sale securities that had been in a continuous unrealized loss position for more than 12 months. The associated unrealized loss recorded in accumulated other comprehensive income on these securities as at October 31, 2009, was $376 million (2008 — $352 million), of which $205 million (2008 — $290 million) related to debt securities, $137 million (2008 —$10 million) related to preferred shares and $34 million (2008 — $52 million) related to equity securities. The unrealized losses on the debt instruments arose primarily from changes in interest rates and credit spreads. Based on factors including underlying credit of the issuers and the over-collateralization provided on certain debt securities, the Bank expects that future interest and principal payments will continue to be received on a timely basis in accordance with the contractual terms of the security. A smaller portion of the unrealized losses as at October 31, 2009, related to equity securities. The Bank holds a diversified portfolio of available-for-sale equities. Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature.

Pensions and other employee future benefits

The Bank sponsors various pension and other future benefit plans for eligible employees in Canada, the United States, Mexico and other international operations. The pension benefits are generally based on years of service and average earnings at retirement. Other future benefits generally include post-retirement health care, dental care and life insurance, along with post-employment benefits such as long-term disability.

Employee future benefit expense and the related benefit obligation are calculated using actuarial methods and certain actuarial assumptions. Most of these assumptions are based on management's best estimate and are reviewed and approved annually. The key assumptions include the long-term rate of investment return on plan assets, future compensation, health care costs, employee turnover, retirement age and mortality. When making these estimates, management considers expectations of future economic trends and business conditions, including inflation rates, as well as other factors. Management also reviews historical investment returns, salary increases and health care costs. Another important assumption is the discount rate used for measuring the benefit obligation. Little judgement is required in selecting this rate, since it is generally prescribed to be equal to the current yield on long term, high-quality corporate bonds with durations similar to the benefit obligation. The management assumption with the greatest potential impact is the assumed long-term rate of return on assets. If this assumed long-term rate of return on assets was 1% lower (higher), the benefit expense for 2009 would have been $53 million higher (lower).

The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefit plan. Based on these measurement dates, the Bank reported a surplus of $463 million in its principal pension plans as disclosed in Note 19 to the Consolidated Financial Statements on pages 134 to 136. As anticipated, there has been a decline in the funded status of the plans since 2008 due to the significant turmoil in capital markets

since last year's measurement dates. The year over year decline in plan asset values has been partially mitigated by a reduction in the benefit obligation, the latter being due to higher discount rates.

The decline in the funded status of the plans will impact the benefit expense for fiscal year 2010 and possibly future years.

Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, consequently increasing or decreasing the benefit expense for future years. In accordance with GAAP, this difference is not recognized immediately as income or expense, but rather is amortized into income over future periods.

Management determines whether the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of each year. Any unrecognized net actuarial gain or loss above this 10% threshold is generally amortized into income over the estimated average remaining service period of active employees ranging from 10 to 22 years for the Bank's principal pension plans, and 9 to 27 years for the Bank's principal other benefit plans.

Note 19 on pages 134 to 136 of the 2009 Consolidated Financial Statements contains details of the Bank's employee future benefit plans, such as the disclosure of pension and other future benefit amounts, management's key assumptions, and a sensitivity analysis of changes in these assumptions on the employee future benefit obligation and expense.

Corporate income taxes

Management exercises judgement in determining the provision for income taxes and future income tax assets and liabilities. The provision is based on management's expectations regarding the income tax consequences of transactions and events during the period. Management interprets the tax legislation for each jurisdiction in which the Bank operates and makes assumptions about the expected timing of the reversal of future assets and liabilities. If management's interpretations of the legislation differ from those of the tax authorities or if the actual timing of the reversals of the future assets and liabilities is not as anticipated, the provision for income taxes could increase or decrease in future periods. The Bank records a valuation allowance if management assesses it is likely that the future income tax assets will not be realized prior to expiration.

Total gross future tax assets related to subsidiaries' unused income tax losses arising in prior years were $376 million as at October 31, 2009 (2008 — $196 million), against which the Bank established a valuation allowance of $3 million (2008 —$10 million) due to uncertainty about the utilization of these losses. Furthermore, one of the Bank's foreign subsidiaries has a valuation allowance of $313 million (2008 —$241 million) related to certain loan loss allowances available to be applied against future taxable earnings. If and when there is greater certainty of realizing these future tax assets, the Bank will adjust the valuation allowances. The Bank's total net future income tax asset was $2,240 million as at October 31, 2009 (2008 — $2,536 million). Note 1 on pages 111 to 116 and Note 18 on page 133 of the 2009 Consolidated Financial Statements contain further details with respect to the Bank's provisions for income taxes.

Variable interest entities

In the normal course of business, the Bank enters into arrangements with variable interest entities (VIEs) on behalf of its customers and for its own purposes. These VIEs can be generally categorized as multi-seller commercial paper conduits, funding vehicles, structured finance entities and collateralized debt obligation entities. Further details are provided on pages 43 to 46 in the off-balance sheet arrangements section.

Management is required to exercise judgement to determine whether a VIE should be consolidated. This evaluation involves understanding the arrangements, determining whether the entity is considered a VIE under the accounting rules, and determining the Bank's variable interests in the VIE. These interests are then compared to those of the unrelated outside parties to identify the holder that is exposed to the majority of the variability in the VIE's expected losses, expected residual returns, or both, to determine whether the Bank should consolidate the VIE. The comparison uses both qualitative and quantitative analytical techniques and use of models and involves the use of a number of assumptions about the business environment in which the VIE operates and the amount and timing of future cash flows.

Management is required to exercise judgement to determine if a primary beneficiary reconsideration event has occurred. In applying the guidance under Canadian GAAP, the Bank considers the following to be reconsideration events for VIEs where the Bank has a variable interest: changes to the VIE's governing documents or contractual arrangements; the primary beneficiary disposing some or all of its variable interest to unrelated parties; or new variable interests issued to parties other than the primary beneficiary.

During 2009, there were no reconsideration events that would have required the Bank to re-assess the primary beneficiary of its multi-seller conduit VIEs. During fiscal 2008, the Bank's U.S. multi-seller conduit transferred certain assets to the Bank pursuant to the terms and conditions of the liquidity asset purchase agreement. At the time of such transfer, the Bank re-assessed the expected losses of the conduit. After considering the increased subordinate note issued to an unrelated party, the Bank determined that the subordinated note holder continues to be the primary beneficiary of the conduit. As such, the Bank was not required to consolidate the Bank's U.S. multi-seller conduit on the Bank's balance sheet.

As described in Note 6 to the Consolidated Financial Statements (on pages 121 to 122) and in the discussion on off-balance sheet arrangements (on pages 43 to 46), the Bank is not the primary beneficiary of the three multi-seller asset-backed commercial paper (ABCP) conduits that it sponsors and is not required to consolidate them on the Bank's balance sheet.

In the future, if the Bank were to become the primary beneficiary of these three Bank-sponsored multi-seller ABCP conduits and consolidate them on the Bank's balance sheet, based on the values as at October 31, 2009, it would result in an increase in the Bank's reported assets of approximately $5.5 billion, and a reduction in capital ratios of approximately 20 to 25 basis points.

Goodwill

Under GAAP, goodwill is not amortized but assessed for impairment on an annual basis at the reporting unit level, or more frequently if an event or change in circumstances indicates the asset might be impaired. Goodwill is assessed for impairment by comparing the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, no further testing is required. If the fair value is less than the carrying amount of the reporting unit, the amount of impairment loss is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities.

The Bank determines its reporting unit's fair values from internally developed valuation models that consider factors such as normalized earnings, projected earnings, and price earnings multiples. Management judgement is required in estimating the fair value of reporting units and imprecision in any assumptions and estimates used in the fair value calculations could influence the determination of goodwill impairment. Management believes the assumptions and estimates used are reasonable and supportable in the current environment.

Based on the assessment approach described above, the Bank did not record any goodwill impairment losses in 2009 or 2008.

Contingent liabilities

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in, or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of claimants. According to GAAP, the Bank should accrue for a loss if, in management's opinion, it is likely that a future event will confirm a liability existed at the balance sheet date and the amount of loss can be reasonably estimated.

In some cases, it may not be possible to determine whether a liability has been incurred or to reasonably estimate the amount of loss until the case is closer to resolution. In these instances, no accrual can be made until that time. If it can be determined that a liability existed as at the balance sheet date, but a reasonable estimate involves a range within which a particular amount appears to be a better estimate, that amount would be accrued. If no such better estimate within a range exists, the Bank is required to accrue the minimum amount in the range. On a regular basis, management and internal and external experts are involved in assessing the adequacy of the Bank's contingent loss accrual. Changes in these assessments may lead to changes in litigation accruals.

While there is inherent difficulty in predicting the outcome of such matters, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the Bank's consolidated financial position, or results of operations.

Changes in accounting policies

Classification and impairment of financial assets

In August 2009, the CICA amended Section 3855, Financial Instruments — Recognition and Measurement, to harmonize classification and related impairment accounting requirements of Canadian GAAP with IFRS. The amendments allow certain debt securities not quoted in an active market to be classified as loans and measured at amortized cost. The Bank still has the ability to classify these instruments as available-for-sale, in which case they are measured at fair value with unrealized gains and losses recorded through other comprehensive income. The amendments also allow the reversal of impairment charges for debt instruments classified as available-for-sale on the occurrence of specific events. Impairment charges for debt securities classified as loans are recorded as provisions for credit losses. As at November 1, 2008, the Bank reclassified instruments with a carrying value of $9,447 million (fair value of $8,529) million from available-for-sale securities to loans.

As a result of the reclassification, the Bank recorded a net increase of $595 million (net of income tax expense of $323 million) to accumulated other comprehensive income. In accordance with these amendments, previous periods have not been restated as a result of implementing the new accounting standards. The net impact on ROE as a result of the increase in accumulated other comprehensive income was a decrease of approximately 50 bps in 2009. Details of this change in accounting policy are included in Note 1 to the Consolidated Financial Statements.

Goodwill and Intangible Assets

Commencing November 1, 2008, the Bank adopted a new accounting standard —Goodwill and Intangible Assets. As a result of adopting the new standard, certain software costs previously recorded as Land, buildings and equipment are now recorded as Other intangible assets in the Consolidated Balance Sheet. The Consolidated Statement of Income reflects the related amortization expense that was previously recorded in Premises and technology non-interest expenses is now recorded as Other non-interest expenses. Details of this reclassification are included in Note 1 to the Consolidated Financial Statements.

Financial instrument disclosures

In June 2009, the CICA issued amendments to its Financial Instruments Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards (IFRS). These amendments were effective for the Bank commencing November 1, 2008 and introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of instruments. The fair values for the three levels are based on:

- Level 1 — unadjusted quoted prices in active markets for identical instruments
- Level 2 — models using inputs other than quoted prices that are observable for the instruments, or
- Level 3 — models using inputs that are not based on observable market data

Note 25 on pages 150 and 151 details the fair value hierarchy of the Bank's financial instruments which are recorded at fair value.

Reclassification of financial assets (2008)

In October 2008, the CICA issued amendments to the accounting standard on Financial Instruments — Recognition and Measurement which permit the reclassification of certain financial assets out of the held-for-trading category under rare circumstances. Pursuant to these amendments, the Bank reviewed its portfolio of trading assets and determined that, other than two trading portfolios discussed below, significant reclassifications were not appropriate due to the nature of assets in the Bank's trading portfolio, which are generally not considered illiquid. In addition, the Bank does not carry significant unhedged positions in its trading portfolios.

During the fourth quarter of 2008, in accordance with these amendments, the Bank reclassified specified assets out of trading securities to available-for-sale securities retroactive to August 1, 2008. These assets were comprised of $303 million of bond assets and $91 million of preferred shares that were no longer traded in an active market and which management intends to hold for the foreseeable future. If these reclassifications of bond assets and preferred shares had not been made, the Bank would have recorded a pre-tax loss of $26 million and $10 million respectively during the fourth quarter of 2008 relating to fair value movements on these assets. Due to the reclassifications, the

amounts were recorded in other comprehensive income for the period ended October 31, 2008. As of the reclassification date, the weighted average effective interest rate on the reclassified bond asset portfolio was 4.0%, with expected recoverable cash flows of $366 million.

Transition to International Financial Reporting Standards (IFRS)

Canadian publicly accountable enterprises must transition to IFRS for fiscal years beginning on or after January 1, 2011. For the Bank, IFRS will be effective for interim and annual periods commencing November 1, 2011, and will include the preparation and reporting of one year of comparative figures.

In order to prepare for the transition to IFRS, the Bank has developed an implementation plan which consists of three related phases: (i) planning and governance; (ii) review and detailed assessment; and (iii) design, development and implementation.

Planning and Governance

Formal governance and project management practices are considered essential to a successful transition. This phase involved the launch of an enterprise-wide project and the establishment of a formal governance structure comprising senior levels of management from all relevant departments that may be affected by the changeover. The Bank has developed a transition plan and regular reporting on the progress against this plan is provided to senior management and to the Audit and Conduct Review Committee of the Board of Directors.

Based on an initial impact assessment of key accounting differences identified between IFRS and Canadian GAAP, the Bank has identified and prioritized critical standards that have the potential to significantly affect the financial statements or operations of the Bank. These standards include, but are not limited to, Consolidation, Financial Instruments (including Derecognition and Impairment), Business Combinations and First-time Adoption of IFRS.

A training program has been implemented for key stakeholders; IFRS awareness training to critical business areas and in-depth training sessions to the finance, key support and project teams have been provided and will continue throughout the remainder of the transition period.

Review and Detailed Assessment

This phase comprises a detailed assessment of the impact of significant accounting differences between IFRS and Canadian GAAP, including the impact on business processes, systems, financial statements and internal control over financial reporting. This phase also includes the identification, evaluation and selection of first-time adoption decisions and future accounting policies necessary for the Bank to change over to IFRS. The Bank's IFRS teams are currently in this phase of the overall transition project.

Design, Development and Implementation

The third phase of the IFRS conversion project entails the design, development and implementation of change requirements to business and financial reporting processes, systems, internal controls, and accounting policies and practices that support the Bank's reporting of IFRS-compliant financial information for fiscal years 2011, 2012, and thereafter. Documentation and update of key materials, such as accounting policy manuals and internal control documents, will be revised during this phase. This phase will also include communication to impacted staff and stakeholders, including provision of training as required. Appropriate oversight and control will be in place to ensure a smooth implementation and transition to IFRS.

Changing IFRS Landscape

As accounting standards and interpretations continue to change prior to transition, the Bank has and will continue to adjust its implementation plan accordingly. The Bank actively monitors developments in standards as issued by the International Accounting Standards Board (IASB) and the Canadian AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators and OSFI.

The impact of IFRS on the Bank's consolidated financial results at the time of transition and on implementation is being assessed.

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 $6.8 million as at October 31, 2009 (2008 — $4.6 million), and loans to directors $0.1 million (2008 — nil).

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 21 of the Consolidated Financial Statements on page 136).

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 $3.6 million as at October 31, 2009 (2008 —$5.7 million), while actual utilized amounts were $1.1 million (2008 — $2.0 million).

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

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

Supplementary Data*

GEOGRAPHIC INFORMATION

g **T37** Net income by geographic segment

For the fiscal years ($ millions)	2009 Canada	2009 United States	2009 Mexico	2009 Other International	2009 Total	2008 Canada	2008 United States	2008 Mexico	2008 Other International	2008 Total	2007 Canada	2007 United States	2007 Mexico	2007 Other International	2007 Total
Net interest income	$ 4,552	$ 641	$ 821	$ 3,331	$ 9,345	$ 4,471	$ 236	$ 903	$ 2,627	$ 8,237	$ 4,294	$ 152	$ 887	$ 2,012	$ 7,345
Provision for credit losses	744	296	185	392	1,617	388	16	141	85	630	295	(91)	68	23	295
Other income	3,211	452	424	1,525	5,612	2,614	(202)	478	1,137	4,027	3,084	698	478	930	5,190
Non-interest expenses	4,529	255	791	2,317	7,892	4,315	200	793	1,982	7,290	4,285	224	723	1,712	6,944
Provision for income taxes	513	222	69	380	1,184	344	(98)	122	369	737	474	215	51	225	965
Non-controlling interest	—	—	6	108	114	—	—	9	110	119	—	—	12	106	118
Net income	$ 1,977	$ 320	$ 194	$ 1,659	$ 4,150	$ 2,038	$ (84)	$ 316	$ 1,218	$ 3,488	$ 2,324	$ 502	$ 511	$ 876	$ 4,213
Preferred dividends paid					174					97					46
Corporate adjustments(1)					(615)					(358)					(173)
Net income available to common shareholders					$ 3,361					$ 3,033					$ 3,994

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

g **T38** Loans and acceptances by geography

Excludes reverse repos As at September 30 ($ billions)	2009	2008	2007	2006	2005	Percentage mix 2009	Percentage mix 2005
Canada							
Atlantic provinces	**$ 15.7**	$ 16.2	$ 14.2	$ 12.7	$ 12.1	**5.8%**	7.0%
Quebec	**16.0**	16.7	14.2	13.1	9.8	**6.0**	5.6
Ontario	**96.0**	103.5	91.1	81.5	72.4	**35.8**	41.7
Manitoba and Saskatchewan	**6.2**	6.4	6.0	5.4	5.3	**2.3**	3.0
Alberta	**20.3**	22.4	19.9	17.1	14.7	**7.6**	8.5
British Columbia	**18.8**	21.2	18.8	16.4	14.2	**7.0**	8.2
	173.0	186.4	164.2	146.2	128.5	**64.5**	74.0
United States	**22.0**	20.6	14.9	14.3	8.8	**8.2**	5.1
Mexico	**9.7**	10.9	8.9	9.3	8.5	**3.6**	4.9
Other International							
Latin America	**21.5**	22.6	11.6	9.2	5.2	**8.0**	3.0
Europe	**12.9**	18.4	10.2	8.1	7.3	**4.8**	4.2
Caribbean	**15.6**	14.8	12.2	11.6	10.1	**5.8**	5.8
Other	**15.1**	16.1	9.9	7.4	6.5	**5.6**	3.8
	65.1	71.9	43.9	36.3	29.1	**24.2**	16.8
General allowance(1)	**(1.4)**	(1.3)	(1.3)	(1.3)	(1.3)	**(0.5)**	(0.8)
Total loans and acceptances	**$ 268.4**	$ 288.5	$ 230.6	$ 204.8	$ 173.6	**100.0%**	100.0%

(1) As at October 31.

g **T39** Gross impaired loans by geographic segment

As at October 31 ($ millions)	2009	2008	2007	2006	2005
Canada	**$ 1,258**	$ 761	$ 606	$ 655	$ 537
United States	**408**	107	11	119	331
Mexico	**238**	216	188	213	190
Other International	**2,035**	1,410	739	883	762
Total	**$ 3,939**	$ 2,494	$ 1,544	$ 1,870	$ 1,820

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

g **T40** Specific provision for credit losses by geographic segment

For the fiscal years ($ millions)	2009	2008	2007	2006	2005
Canada	**$ 804**	$ 388	$ 295	$ 273	$ 264
United States	**192**	16	(91)	(41)	(93)
Mexico	**185**	141	68	27	34
Other International	**392**	85	23	17	70
Total	**$ 1,573**	$ 630	$ 295	$ 276	$ 275

g **T41** Geographic distribution of earning assets

	2009					
As at September 30 ($ billions)	**Balance**	**% of earning assets**	2008	2007	2006	2005
North America						
Canada	**$ 277.9**	**61.9%**	$ 263.0	$ 247.5	$ 218.4	$ 187.2
United States	**58.2**	**13.0**	38.2	36.3	41.9	32.5
	336.1	**74.9**	301.2	283.8	260.3	219.7
Mexico	**17.8**	**4.0**	22.8	19.8	21.1	20.4
Europe						
United Kingdom	**8.6**	**1.9**	11.0	6.4	6.4	6.8
Germany	**3.7**	**0.8**	4.1	3.8	3.5	2.0
Ireland	**4.7**	**1.0**	11.1	6.2	4.8	4.0
France	**2.2**	**0.5**	2.2	2.3	2.5	1.9
Netherlands	**1.6**	**0.4**	2.5	1.4	1.5	1.7
Other	**6.6**	**1.5**	7.5	5.5	3.4	4.2
	27.4	**6.1**	38.4	25.6	22.1	20.6
Caribbean						
Jamaica	**3.5**	**0.8**	3.6	3.2	3.1	2.8
Puerto Rico	**2.4**	**0.5**	2.4	2.1	2.0	1.7
Bahamas	**2.7**	**0.6**	3.0	2.4	2.4	1.8
Trinidad & Tobago	**2.6**	**0.6**	2.1	1.7	1.5	1.7
Other	**9.1**	**2.0**	8.8	7.3	9.0	6.1
	20.3	**4.5**	19.9	16.7	18.0	14.1
Latin America						
Chile	**11.1**	**2.5**	11.0	4.2	4.2	3.2
Peru	**7.5**	**1.6**	7.4	4.5	4.1	0.1
Other	**8.0**	**1.8**	9.1	7.0	4.3	3.7
	26.6	**5.9**	27.5	15.7	12.6	7.0
Asia						
India	**3.7**	**0.8**	3.7	2.5	1.8	1.5
Malaysia	**1.8**	**0.4**	1.8	1.4	1.3	1.8
South Korea	**2.6**	**0.6**	2.0	1.8	1.6	1.7
Japan	**1.2**	**0.3**	1.9	1.8	1.1	1.0
Hong Kong	**2.9**	**0.6**	2.6	1.6	1.7	1.4
Other	**6.2**	**1.4**	6.0	3.6	2.9	2.7
	18.4	**4.1**	18.0	12.7	10.4	10.1
Middle East and Africa	**3.4**	**0.8**	3.1	1.8	1.8	1.1
General allowance(1)	**(1.4)**	**(0.3)**	(1.3)	(1.3)	(1.3)	(1.3)
Total	**$ 448.6**	**100.0%**	$ 429.6	$ 374.8	$ 345.0	$ 291.7

(1) As at October 31.

g **T42** Cross-border exposure to select countries (1)

As at October 31 ($ millions)	Loans	Interbank deposits	Trade	Government and other securities	Investment in subsidiaries and affiliates	Other	2009 Total	2008 Total
Mexico	$ 1,580	$ —	$ 71	$ 456	$ 2,157	$ 181	**$ 4,445**	$ 4,934
Asia								
India	$ 1,800	$ —	$ 726	$ 273	$ —	$ 41	**$ 2,840**	$ 3,016
South Korea	1,588	—	470	505	—	186	**2,749**	3,264
China	987	57	992	24	—	5	**2,065**	2,288
Malaysia	685	—	28	248	191	5	**1,157**	1,341
Japan	902	37	4	69	—	37	**1,049**	1,487
Hong Kong	350	—	102	405	—	16	**873**	1,203
Thailand	207	—	5	85	520	—	**817**	475
Other(2)	527	68	212	210	—	8	**1,025**	1,593
	$ 7,046	$ 162	$ 2,539	$ 1,819	$ 711	$ 298	**$ 12,575**	$ 14,667
Latin America								
Chile	$ 1,099	$ —	$ 53	$ 17	$ 1,838	$ 3	**$ 3,010**	$ 2,619
Brazil	509	—	1,117	254	—	3	**1,883**	1,888
Peru	182	—	58	—	1,550	4	**1,794**	1,755
Costa Rica	882	—	64	—	438	—	**1,384**	1,736
El Salvador	236	—	3	—	402	—	**641**	916
Venezuela	6	—	—	—	118	—	**124**	118
Other(3)	1,157	15	45	21	—	19	**1,257**	1,346
	$ 4,071	$ 15	$ 1,340	$ 292	$ 4,346	$ 29	**$ 10,093**	$ 10,378

(1) Cross-border exposure represents a claim, denominated in a currency other than the local one, against a borrower in a foreign country on the basis of ultimate risk.

(2) Includes Indonesia, the Philippines, Singapore and Taiwan.

(3) Includes Colombia, Panama and Uruguay.

g **T43** Loans and acceptances by type of borrower

As at October 31 ($ billions)	2009 Balance	2009 % of total	2008
Loans to households			
Residential mortgages	**$ 101.3**	**36.5%**	$ 114.9
Credit cards	**11.1**	**4.0**	11.2
Personal loans	**49.3**	**17.8**	38.9
	161.7	**58.3**	165.0
Loans to businesses and governments			
Financial services	**18.8**	**6.8**	18.7
Wholesale and retail	**10.9**	**3.9**	14.9
Real estate	**11.7**	**4.2**	13.5
Oil and gas	**9.8**	**3.5**	12.0
Transportation	**7.8**	**2.8**	8.5
Automotive	**5.1**	**1.8**	7.1
Agriculture	**4.3**	**1.6**	5.3
Government	**3.3**	**1.2**	3.4
Hotels and leisure	**4.8**	**1.7**	5.2
Mining and primary metals	**5.7**	**2.1**	8.1
Utilities	**6.1**	**2.2**	6.3
Health care	**4.0**	**1.4**	5.0
Telecommunications and cable	**4.6**	**1.6**	6.5
Media	**2.7**	**1.0**	4.7
Chemical	**1.3**	**0.5**	1.7
Food and beverage	**3.8**	**1.4**	3.1
Forest products	**1.5**	**0.6**	2.1
Other	**9.5**	**3.4**	10.9
	115.7	**41.7**	137.0
	277.4	**100.0%**	302.0
General and sectoral allowances	**(1.5)**		(1.4)
Total loans and acceptances	**$ 275.9**		$ 300.6

g **T44** Off-balance sheet credit instruments

As at October 31 ($ billions)	2009	2008	2007	2006	2005
Commitments to extend credit	**$ 104.5**	$ 130.2	$ 114.3	$ 105.9	$ 99.9
Standby letters of credit and letters of guarantee	**21.9**	27.8	18.4	18.5	15.8
Securities lending, securities purchase commitments and other	**12.7**	12.8	13.8	13.0	9.3
Total	**$ 139.1**	$ 170.8	$ 146.5	$ 137.4	$ 125.0

g **T45** Changes in net impaired loans

For the fiscal years ($ millions)	2009	2008	2007	2006	2005
Gross impaired loans					
Balance at beginning of year	**$ 2,494**	$ 1,544	$ 1,870	$ 1,820	$ 2,200
Net additions					
New additions	**4,461**	2,158	1,338	1,262	1,263
Declassifications, payments and loan sales	**(1,149)**	(846)	(891)	(956)	(1,034)
	3,312	1,312	447	306	229
Acquisition of subsidiaries	**—**	341	33	340	64
Writeoffs					
Residential mortgages	**(64)**	(59)	(5)	(5)	(6)
Personal loans	**(669)**	(424)	(301)	(214)	(237)
Credit cards	**(470)**	(268)	(183)	(150)	(130)
Business and government	**(457)**	(129)	(209)	(174)	(277)
	(1,660)	(880)	(698)	(543)	(650)
Foreign exchange and other	**(207)**	177	(108)	(53)	(23)
Balance at end of year	**3,939**	2,494	1,544	1,870	1,820
Specific allowance for credit losses					
Balance at beginning of year	**1,303**	943	1,300	1,139	1,321
Acquisition of subsidiaries	**9**	232	38	323	59
Specific provision for credit losses	**1,573**	630	295	276	275
Writeoffs	**(1,660)**	(880)	(698)	(543)	(650)
Recoveries by portfolio					
Residential mortgages	**27**	34	4	3	1
Personal loans	**94**	73	73	71	75
Credit cards	**47**	45	35	37	32
Business and government	**55**	79	74	70	97
	223	231	186	181	205
Foreign exchange and other (1)	**(72)**	147	(178)	(76)	(71)
Balance at end of year	**1,376**	1,303	943	1,300	1,139
Net impaired loans					
Balance at beginning of year	**1,191**	601	570	681	879
Net change in gross impaired loans	**1,445**	950	(326)	50	(380)
Net change in specific allowance for credit losses	**(73)**	(360)	357	(161)	182
Balance at end of year	**2,563**	1,191	601	570	681
General allowance for credit losses	**1,450**	1,323	1,298	1,307	1,330
Sectoral allowance	**44**	—	—	—	—
Balance after deducting general and sectoral allowance	**$ 1,069**	$ (132)	$ (697)	$ (737)	$ (649)

(1) Includes $3 transferred from other liabilities in 2009, $3 transferred from other liabilities in 2008, $5 transferred to other liabilities in 2006, and $2 transferred from other liabilities in 2005.

g **T46** Provisions for credit losses

For the fiscal years ($ millions)	2009	2008	2007	2006	2005
Specific provisions for credit losses					
Gross specific provisions	**$ 1,969**	$ 1,084	$ 720	$ 746	$ 875
Reversals	**(173)**	(223)	(239)	(289)	(395)
Recoveries	**(223)**	(231)	(186)	(181)	(205)
Net specific provisions for credit losses	**1,573**	630	295	276	275
General provision	**127**	—	(25)	(60)	(45)
Sectoral provision	**44**	—	—	—	—
Total net provisions for credit losses	**$ 1,744**	$ 630	$ 270	$ 216	$ 230

g **T47** Specific provisions for credit losses by type of borrower

For the fiscal years ($ millions)	2009	2008	2007	2006	2005
Personal					
Residential mortgages	**$ 25**	$ —	$ (9)	$ 10	$ 11
Other personal loans	**1,042**	636	449	283	275
	1,067	636	440	293	286
Businesses and governments					
Financial services	**199**	7	(10)	—	10
Wholesale and retail	**101**	—	(39)	5	11
Real estate	**59**	(69)	(11)	(7)	27
Oil and gas	**34**	43	(1)	—	(3)
Transportation	**(9)**	(15)	(9)	4	(6)
Automotive	**19**	5	1	11	6
Agriculture	**19**	5	(4)	2	11
Government	**(35)**	(18)	2	(6)	5
Hotels and leisure	**10**	(4)	(5)	(21)	20
Mining and primary metals	**3**	(16)	(4)	(10)	(47)
Utilities	**—**	(2)	(18)	(21)	(71)
Health care	**4**	2	(1)	2	3
Telecommunications and cable	**6**	(3)	(5)	(14)	17
Media	**52**	11	(13)	(4)	(3)
Chemical	**1**	7	(22)	13	4
Food and beverage	**8**	(17)	(6)	7	(17)
Forest products	**5**	3	—	(1)	10
Other	**30**	55	—	23	12
	506	(6)	(145)	(17)	(11)
Total specific provisions	**$ 1,573**	$ 630	$ 295	$ 276	$ 275

g **T48** Impaired loans by type of borrower

As at October 31 ($ millions)	2009 Gross	2009 Specific allowance for credit losses	2009 Net	2008 Gross	2008 Specific allowance for credit losses	2008 Net
Personal						
Residential mortgages	**$ 1,119**	**$ (241)**	**$ 878**	$ 664	$ (232)	$ 432
Other personal loans	**881**	**(688)**	**193**	692	(608)	84
	2,000	**(929)**	**1,071**	1,356	(840)	516
Businesses and governments						
Financial services	**225**	**(42)**	**183**	41	(28)	13
Wholesale and retail	**213**	**(73)**	**140**	125	(65)	60
Real estate	**487**	**(76)**	**411**	288	(72)	216
Oil and gas	**71**	**(6)**	**65**	110	(11)	99
Transportation	**76**	**(15)**	**61**	42	(25)	17
Automotive	**77**	**(22)**	**55**	31	(3)	28
Agriculture	**106**	**(40)**	**66**	84	(58)	26
Government	**63**	**(23)**	**40**	3	(30)	(27)
Hotels and leisure	**260**	**(13)**	**247**	132	(8)	124
Mining and primary metals	**21**	**(9)**	**12**	33	(18)	15
Utilities	**1**	**(1)**	**—**	—	—	—
Health care	**21**	**(9)**	**12**	11	(5)	6
Telecommunications and cable	**36**	**(14)**	**22**	16	(9)	7
Media	**49**	**(9)**	**40**	9	(8)	1
Chemical	**3**	**(1)**	**2**	10	(2)	8
Food and beverage	**41**	**(15)**	**26**	16	(5)	11
Forest products	**19**	**(12)**	**7**	20	(8)	12
Other	**170**	**(67)**	**103**	167	(108)	59
	1,939	**(447)**	**1,492**	1,138	(463)	675
Total	**$ 3,939**	**$ (1,376)**	**$ 2,563**	$ 2,494	$ (1,303)	$ 1,191

g **T49** Total credit risk exposures by geography (1,2)

As at October 31 ($ millions)	2009 Drawn	2009 Undrawn	2009 Other exposures(3)	2009 Total	2008 Total
Canada	$210,866	$43,719	$ 25,283	**$279,868**	$278,770
United States	39,790	15,172	25,378	**80,340**	89,451
Mexico	11,312	218	849	**12,379**	15,137
Other International					
Europe	20,111	1,798	5,782	**27,691**	39,486
Caribbean	24,304	1,356	2,083	**27,743**	30,788
Latin America	21,790	1,158	1,161	**24,109**	22,653
Other	20,025	1,130	1,815	**22,970**	29,956
Total	$348,198	$64,551	$ 62,351	**$475,100**	$506,241

(1) Geographic segmentation is based upon the location of the ultimate risk of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.

(2) Exposure at default.

(3) Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, derivatives, securitization and repo-style transactions after collateral.

g **T50** AIRB credit risk exposures by maturity (1,2)

As at October 31 ($ millions) Residual maturity	2009 Drawn	2009 Undrawn	2009 Other exposures(3)	2009 Total	2008 Total
Non-retail					
Less than 1 year	$ 49,398	$18,550	$ 25,009	**$ 92,957**	$102,477
One to 5 years	48,962	29,016	30,853	**108,831**	125,618
Over 5 years	6,719	747	3,872	**11,338**	18,650
Total non-retail	$105,079	$48,313	$ 59,734	**$213,126**	$246,745
Retail(5)					
Less than 1 year	$ 15,644	$ 6,767	$ —	**$ 22,411**	$ 17,025
One to 5 years	100,888	—	—	**100,888**	90,120
Over 5 years	2,536	—	—	**2,536**	1,782
Revolving credits(4)	32,507	5,594	—	**38,101**	34,925
Total retail	$151,575	$12,361	$ —	**$163,936**	143,852
Total	$256,654	$60,674	$ 59,734	**$377,062**	$390,597

(1) Remaining term to maturity of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.

(2) Exposure at default, before credit risk mitigation.

(3) Off-balance sheet lending instruments, such as letters of credit, letters of guarantee, securitization, derivatives and repo-style transactions after collateral.

(4) Credit cards and lines of credit, with unspecified maturity.

(5) Comparatives have been reclassified to conform with the current presentation.

n **T51** Total credit risk exposures and risk-weighted assets

As at October 31 ($ millions)	2009 Exposure at Default[1] AIRB	2009 Exposure at Default[1] Standardized[2]	2009 Exposure at Default[1] Total	2009 Total Risk-weighted assets	2008 Exposure at Default Total[1]	2008 Total Risk-weighted assets
Non-retail						
Corporate						
Drawn	$ 53,693	$ 45,282	$ 98,975	$ 81,771	$117,649	$ 95,688
Undrawn	33,328	3,366	36,694	19,429	43,943	24,886
Other(3)	11,075	2,106	13,181	6,397	16,856	8,615
	98,096	50,754	148,850	107,597	178,448	129,189
Bank						
Drawn	12,297	9,301	21,598	5,527	32,986	7,284
Undrawn	14,170	70	14,240	2,391	16,586	3,056
Other(3)	11,907	503	12,410	2,032	16,587	2,860
	38,374	9,874	48,248	9,950	66,159	13,200
Sovereign						
Drawn	39,089	12,252	51,341	2,340	24,626	2,533
Undrawn	815	51	866	83	1,270	210
Other(3)	634	8	642	18	1,280	67
	40,538	12,311	52,849	2,441	27,176	2,810
Total Non-retail						
Drawn	105,079	66,835	171,914	89,638	175,261	105,505
Undrawn	48,313	3,487	51,800	21,903	61,799	28,152
Other(3)	23,616	2,617	26,233	8,447	34,723	11,542
	$177,008	$ 72,939	$249,947	$ 119,988	$271,783	$145,199
Retail						
Retail residential mortgages						
Drawn	$108,835	$ 13,183	$122,018	$ 9,868	$120,709	$ 9,409
Undrawn	6,702	—	6,702	131	3,292	33
	115,537	13,183	128,720	9,999	124,001	9,442
Home equity lines of credit (HELOCs)						
Drawn	18,112	—	18,112	747	14,644	544
Undrawn	—	—	—	—	—	—
	18,112	—	18,112	747	14,644	544
Qualifying retail revolving exposures (QRRE)						
Drawn	13,142	—	13,142	5,406	12,051	4,005
Undrawn	5,594	—	5,594	797	7,076	756
	18,736	—	18,736	6,203	19,127	4,761
Other retail						
Drawn	11,486	11,527	23,013	14,074	23,453	14,087
Undrawn	65	389	454	346	243	187
	11,551	11,916	23,467	14,420	23,696	14,274
Total retail						
Drawn	151,575	24,710	176,285	30,095	170,857	28,045
Undrawn	12,361	389	12,750	1,274	10,611	976
	$163,936	$ 25,099	$189,035	$ 31,369	$181,468	$ 29,021
Securitization exposures	18,528	—	18,528	6,474	28,539	4,354
Trading derivatives	17,590	—	17,590	5,850	24,451	8,595
Subtotal	$377,062	$ 98,038	$475,100	$ 163,681	$506,241	$187,169
Equities	2,897	—	2,897	5,607	3,375	6,142
Other assets	—	26,275	26,275	12,418	21,929	14,215
Total credit risk, before scaling factor	$379,959	$ 124,313	$504,272	$ 181,706	$531,545	$207,526
Add-on for 6% scaling factor(4)	—	—	—	6,134	—	6,946
Total credit risk	$379,959	$ 124,313	$504,272	$ 187,840	$531,545	$214,472

(1) Outstanding amount for on-balance sheet exposures and loan equivalent amount for off-balance sheet exposures, before credit risk mitigation.

(2) Net of specific allowances for credit losses.

(3) Other exposures include off-balance sheet lending instruments, such as letters of credit, letters of guarantee, non-trading derivatives and repo-style exposures, after collateral.

(4) Basel Committee imposed scaling factor (6%) on risk-weighted assets for Internal ratings-based credit risk portfolios.

CAPITAL

n **T52** Capital funding activity in fiscal 2009

Issues		Maturities/Redemptions/Repurchase	
Tier 1 Capital		Tier 1 Capital	
Preferred shares			
December 12, 2008	$250,000,000 Series 24 Non-cumulative 5-Year Rate Reset Preferred Shares		
January 21, 2009	$325,000,000 Series 26 Non-cumulative 5-Year Rate Reset Preferred Shares		
January 30, 2009	$275,000,000 Series 28 Non-cumulative 5-Year Rate Reset Preferred Shares		
Trust securities			
May 7, 2009	$650,000,000 7.802% Scotiabank Tier 1 Securities Series 2009-1 due June 30, 2108		
Tier 2 Capital		Tier 2 Capital	
Subordinated debt		**Subordinated debt**	
January 22, 2009	$1,000,000,000 6.65% Debentures due January 22, 2021	May 12, 2009	$325,000,000 Redemption of 5.75% Debentures due May 12, 2014
April 15, 2009	$1,000,000,000 4.94% Debentures due April 15, 2019	June 22, 2009	US$14,000,000 Repurchase of Floating Rate Subordinated Capital Debentures due August 2085
		September 4, 2009	US$17,350,000 Repurchase of Floating Rate Subordinated Capital Debentures due August 2085

REVENUES AND EXPENSES

n **T53** Volume/rate analysis of changes in net interest income

Taxable equivalent basis[1] For the fiscal years ($ millions)	2009 versus 2008 Increase (decrease) due to change in: Average volume	Average rate	Net change	2008 versus 2007 Increase (decrease) due to change in: Average volume	Average rate	Net change
Net interest income						
Total earning assets	**$ 1,804**	**$ (5,313)**	**$ (3,509)**	$ 2,118	$ (952)	$ 1,166
Total interest-bearing liabilities	**(1,013)**	**5,148**	**4,135**	(1,396)	591	(805)
Change in net interest income	**$ 791**	**$ (165)**	**$ 626**	$ 722	$ (361)	$ 361

(1) Refer to the non-GAAP measures on page 27.

n **T54** Taxes

For the fiscal years ($ millions)	2009	2008	2007	2006	2005	2009 versus 2008
Income taxes						
Provision for income taxes	**$ 1,133**	$ 691	$ 1,063	$ 872	$ 847	**64%**
Taxable equivalent adjustment[1]	**288**	416	531	440	326	**(31)**
Provision for income taxes (TEB)[1]	**1,421**	1,107	1,594	1,312	1,173	**28**
Other taxes						
Payroll taxes	**184**	177	164	152	137	**4**
Business and capital taxes	**177**	116	143	133	147	**53**
Goods and services and other	**136**	129	143	128	132	**5**
Total other taxes	**497**	422	450	413	416	**18**
Total income and other taxes[2]	**$ 1,918**	$ 1,529	$ 2,044	$ 1,725	$ 1,589	**25%**
Net income before income taxes	**$ 4,794**	$ 3,950	$ 5,226	$ 4,549	$ 4,127	**21%**
Effective income tax rate (%)	**23.6**	17.5	20.3	19.2	20.5	**6.1**
Effective income tax rate (TEB) (%)[3]	**28.0**	25.4	27.7	26.3	26.3	**2.6**
Total tax rate (%)[4]	**30.8**	25.5	26.7	25.9	27.8	**5.3**

(1) Taxable equivalent basis. Refer to the non-GAAP measures on Page 27.

(2) Comprising $675 of Canadian taxes (2008 — $569; 2007 — $1,175; 2006 — $1,035; 2005 — $988) and $1,243 of foreign taxes (2008 — $960; 2007 — $869; 2006 — $690; 2005 — $601).

(3) Provision for income tax, expressed on a taxable equivalent basis, as a percentage of net income before income taxes.

(4) Total income and other taxes as a percentage of net income before income and other taxes.

OTHER INFORMATION

n **T55** Components of net income as a percentage of average total assets (1)

Taxable equivalent basis For the fiscal years (%)	2009	2008	2007	2006	2005
Net interest income	**1.68%**	1.75%	1.89%	1.95%	2.00%
Provision for credit losses	**(0.34)**	(0.14)	(0.07)	(0.06)	(0.07)
Other income	**1.19**	0.95	1.34	1.37	1.46
Net interest and other income	**2.53**	2.56	3.16	3.26	3.39
Non-interest expenses	**(1.54)**	(1.60)	(1.73)	(1.84)	(1.95)
Net income before the undernoted:	**0.99**	0.96	1.43	1.42	1.44
Provision for income taxes and non-controlling interest	**(0.30)**	(0.27)	(0.43)	(0.40)	(0.40)
Net income	**0.69%**	0.69%	1.00%	1.02%	1.04%
Average total assets ($ billions)	**$ 513.1**	$ 455.5	$ 403.5	$ 350.7	$ 309.4

(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: 2009 — $288 million; 2008 — $416 million; 2007 — $531 million; 2006 — $440 million; 2005 — $326 million.

n **T56** Assets under administration and management (1)

($ billions)	2009	2008	2007	2006	2005
Assets under administration					
Personal					
Retail brokerage	**$ 76.4**	$ 74.3	$ 77.4	$ 69.7	$ 64.2
Investment management and trust	**60.1**	55.8	53.1	59.5	57.0
	136.5	130.1	130.5	129.2	121.2
Mutual funds	**31.6**	27.9	24.8	19.8	18.4
Institutional	**47.0**	45.1	39.8	42.9	31.8
Total	**$ 215.1**	$ 203.1	$ 195.1	$ 191.9	$ 171.4
Assets under management					
Personal	**$ 13.6**	$ 12.5	$ 11.2	$ 10.0	$ 9.4
Mutual funds	**22.8**	19.6	15.9	13.2	13.4
Institutional	**5.2**	4.6	4.3	4.6	3.8
Total	**$ 41.6**	$ 36.7	$ 31.4	$ 27.8	$ 26.6

(1) 2009 data as at October 31; 2005 to 2008 data as at September 30.

n **T57** Fees paid to the shareholders' auditors

For the fiscal years ($ millions)	2009	2008
Audit services	**$ 16.6**	$ 13.9
Audit-related services	**0.6**	0.8
Tax services outside of the audit scope	**0.1**	0.1
Other non-audit services	**0.7**	0.4
	$ 18.0	$ 15.2

n T58 Selected quarterly information

As at and for the quarter ended	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Operating results ($ millions)								
Net interest income	**2,099**	**2,176**	**2,087**	**1,966**	1,941	1,946	1,873	1,814
Net interest income (TEB(1))	**2,172**	**2,244**	**2,164**	**2,036**	2,036	2,049	1,973	1,932
Total revenue	**3,735**	**3,775**	**3,596**	**3,351**	2,491	3,374	3,172	2,839
Total revenue (TEB(1))	**3,808**	**3,843**	**3,673**	**3,421**	2,586	3,477	3,272	2,957
Provision for credit losses	**420**	**554**	**489**	**281**	207	159	153	111
Non-interest expenses	**2,064**	**1,959**	**1,886**	**2,010**	1,944	1,889	1,794	1,669
Provision for income taxes	**321**	**303**	**319**	**190**	2	287	209	193
Provision for income taxes (TEB (1))	**394**	**371**	**396**	**260**	97	390	309	311
Net income	**902**	**931**	**872**	**842**	315	1,010	980	835
Net income available to common shareholders	**853**	**882**	**821**	**805**	283	978	958	814
Operating performance								
Basic earnings per share ($)	**0.84**	**0.87**	**0.81**	**0.80**	0.28	0.99	0.97	0.83
Diluted earnings per share ($)	**0.83**	**0.87**	**0.81**	**0.80**	0.28	0.98	0.97	0.82
Return on equity (%) (1)(2)	**16.4**	**17.3**	**16.8**	**16.2**	6.0	21.0	21.4	18.3
Productivity ratio (%)(TEB(1))(2)	**54.2**	**51.0**	**51.4**	**58.7**	75.2	54.3	54.8	56.5
Net interest margin on total average assets (%)(TEB(1))(2)	**1.74**	**1.76**	**1.71**	**1.52**	1.68	1.79	1.76	1.79
Balance sheet information ($ billions)								
Cash resources and securities (2)	**160.6**	**148.3**	**137.5**	**123.7**	125.4	124.1	129.7	130.9
Loans and acceptances (2)	**275.9**	**276.8**	**306.6**	**313.2**	300.6	283.7	267.9	260.5
Total assets(2)	**496.5**	**486.5**	**514.5**	**510.6**	507.6	462.4	452.6	449.4
Deposits	**350.4**	**333.7**	**346.9**	**346.6**	346.6	332.5	322.4	316.8
Preferred shares	**3.7**	**3.7**	**3.7**	**3.7**	2.9	2.6	2.2	1.9
Common shareholders' equity (2)	**21.1**	**20.3**	**20.1**	**19.9**	18.8	18.8	18.2	18.1
Assets under administration	**215.1**	**207.9**	**196.8**	**191.8**	203.1	207.4	202.3	195.2
Assets under management	**41.6**	**39.8**	**35.4**	**34.3**	36.7	37.8	32.9	31.7
Capital measures (%)								
Tier 1 capital ratio	**10.7**	**10.4**	**9.6**	**9.5**	9.3	9.8	9.6	9.0
Total capital ratio	**12.9**	**12.7**	**11.8**	**11.4**	11.1	11.5	11.7	10.2
Common equity to risk-weighted assets	**9.7**	**9.4**	**9.0**	**9.0**	8.3	8.6	8.6	7.8
Tangible common equity to risk-weighted assets(1)(3)	**8.2**	**7.9**	**7.2**	**7.2**	6.6	7.4	7.4	7.2
Risk-weighted assets ($ billions)	**221.6**	**221.5**	**241.8**	**239.7**	250.6	225.8	218.9	234.9
Credit quality								
Net impaired loans(4) ($ millions)	**2,563**	**2,509**	**2,179**	**1,602**	1,191	1,009	845	689
General allowance for credit losses ($ millions)	**1,450**	**1,450**	**1,350**	**1,323**	1,323	1,323	1,323	1,298
Sectoral allowance ($ millions)	**44**	**48**	**60**	**—**	—	—	—	—
Net impaired loans as a % of loans and acceptances(2)(4)	**0.93**	**0.91**	**0.71**	**0.51**	0.40	0.36	0.32	0.26
Specific provision for credit losses as a % of average loans and acceptances (annualized)(2)	**0.63**	**0.64**	**0.54**	**0.36**	0.29	0.23	0.24	0.18
Common share information								
Share price ($)								
High	**49.19**	**46.51**	**35.85**	**40.68**	51.55	52.51	50.00	54.00
Low	**42.95**	**33.75**	**23.99**	**27.35**	35.25	41.95	42.00	43.10
Close	**45.25**	**45.92**	**33.94**	**29.67**	40.19	49.98	47.82	48.19
Shares outstanding (millions)								
Average — Basic	**1,021**	**1,017**	**1,014**	**1,001**	990	989	986	985
Average — Diluted	**1,024**	**1,020**	**1,016**	**1,003**	994	994	992	992
End of period	**1,025**	**1,020**	**1,017**	**1,012**	992	990	987	985
Dividends per share ($)	**0.49**	**0.49**	**0.49**	**0.49**	0.49	0.49	0.47	0.47
Dividend yield (%)(5)	**4.3**	**4.9**	**6.6**	**5.8**	4.5	4.1	4.1	3.9
Market capitalization ($ billions)	**46.4**	**46.9**	**34.5**	**30.0**	39.9	49.5	47.2	47.5
Book value per common share ($) (2)	**20.55**	**19.89**	**19.80**	**19.67**	18.94	18.99	18.45	18.40
Market value to book value multiple (2)	**2.2**	**2.3**	**1.7**	**1.5**	2.1	2.6	2.6	2.6
Price to earnings multiple (trailing 4 quarters)	**13.6**	**16.6**	**11.8**	**9.8**	13.1	13.4	12.7	12.5

(1) Non-GAAP measure. Refer to the non-GAAP measures on page 27.

(2) Amounts for 2009 have been adjusted to reflect the impact of the new accounting policy related to the classification and impairment of financial assets. Refer to Note 1 of the Consolidated Financial Statements for further details.

(3) Comparative amounts have been restated to reflect a new definition of tangible common equity. Refer to non-GAAP measures on page 27.

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

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

ELEVEN-YEAR STATISTICAL REVIEW

n **T59** Consolidated Balance Sheet

As at October 31 ($ millions)	2009	2008	2007	2006
Assets				
Cash resources	**$ 43,278**	$ 37,318	$ 29,195	$ 23,376
Securities				
Trading	**58,067**	48,292	59,685	62,490
Available-for-sale	**55,699**	38,823	28,426	—
Investment	**—**	—	—	32,870
Equity accounted investments	**3,528**	920	724	142
	117,294	88,035	88,835	95,502
Securities purchased under resale agreements	**17,773**	19,451	22,542	25,705
Loans				
Residential mortgages	**101,604**	115,084	102,154	89,590
Personal and credit cards	**61,048**	50,719	41,734	39,058
Business and government	**106,520**	125,503	85,500	76,733
	269,172	291,306	229,388	205,381
Allowance for credit losses	**2,870**	2,626	2,241	2,607
	266,302	288,680	227,147	202,774
Other				
Customers' liability under acceptances	**9,583**	11,969	11,538	9,555
Derivative instruments(1)	**25,992**	44,810	21,960	12,098
Land, buildings and equipment(2)	**2,372**	2,449	2,061	2,103
Other assets(1)(2)	**13,922**	14,913	8,232	7,893
	51,869	74,141	43,791	31,649
	$496,516	$507,625	$411,510	$379,006
Liabilities and shareholders' equity				
Deposits				
Personal	**$123,762**	$118,919	$100,823	$ 93,450
Business and government	**203,594**	200,566	161,229	141,072
Banks	**23,063**	27,095	26,406	29,392
	350,419	346,580	288,458	263,914
Other				
Acceptances	**9,583**	11,969	11,538	9,555
Obligations related to securities sold under repurchase agreements	**36,568**	36,506	28,137	33,470
Obligations related to securities sold short	**14,688**	11,700	16,039	13,396
Derivative instruments(1)	**28,806**	42,811	24,689	12,869
Other liabilities(1)	**24,682**	31,063	21,138	24,799
Non-controlling interest in subsidiaries	**554**	502	497	435
	114,881	134,551	102,038	94,524
Subordinated debentures	**5,944**	4,352	1,710	2,271
Capital instrument liabilities	**500**	500	500	750
Shareholders' equity				
Capital stock				
Preferred shares	**3,710**	2,860	1,635	600
Common shares and contributed surplus	**4,946**	3,829	3,566	3,425
Retained earnings	**19,916**	18,549	17,460	15,843
Accumulated other comprehensive income (loss)	**(3,800)**	(3,596)	(3,857)	(2,321)
	24,772	21,642	18,804	17,547
	$496,516	$507,625	$411,510	$379,006

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

(2) Comparative amounts have been reclassified to conform with the new accounting standard for goodwill and intangible assets. Refer to Note 1 of the Consolidated Financial Statements for details.

2005	2004	2003	2002	2001	2000	1999
$ 20,505	$ 17,155	$ 20,581	$ 20,273	$ 20,160	$ 18,744	$ 17,115
50,007	43,056	42,899	34,592	27,834	21,821	13,939
—	—	—	—	—	—	—
23,285	15,576	20,141	21,439	25,256	19,162	19,480
167	141	152	163	194	403	550
73,459	58,773	63,192	56,194	53,284	41,386	33,969
20,578	17,880	22,648	32,262	27,500	23,559	13,921
75,520	69,018	61,646	56,295	52,592	50,037	47,916
34,695	30,182	26,277	23,363	20,116	17,988	16,748
62,681	57,384	64,313	77,181	79,460	78,172	69,873
172,896	156,584	152,236	156,839	152,168	146,197	134,537
2,469	2,696	3,217	3,430	4,236	2,853	2,599
170,427	153,888	149,019	153,409	147,932	143,344	131,938
7,576	7,086	6,811	8,399	9,301	8,807	9,163
12,867	15,488	15,308	15,821	15,886	8,244	8,039
1,836	1,823	1,944	2,101	2,325	1,631	1,681
6,777	7,119	6,389	7,921	8,037	7,456	6,865
29,056	31,516	30,452	34,242	35,549	26,138	25,748
$ 314,025	$ 279,212	$ 285,892	$ 296,380	$ 284,425	$ 253,171	$ 222,691
$ 83,953	$ 79,020	$ 76,431	$ 75,558	$ 75,573	$ 68,972	$ 65,715
109,389	94,125	93,541	93,830	80,810	76,980	64,070
24,103	22,051	22,700	26,230	29,812	27,948	26,833
217,445	195,196	192,672	195,618	186,195	173,900	156,618
7,576	7,086	6,811	8,399	9,301	8,807	9,163
26,032	19,428	28,686	31,881	30,627	23,792	16,781
11,250	7,585	9,219	8,737	6,442	4,297	2,833
13,004	16,002	14,758	15,500	15,453	8,715	8,651
18,983	13,785	14,145	15,678	15,369	14,586	11,667
306	280	326	662	586	229	198
77,151	64,166	73,945	80,857	77,778	60,426	49,293
2,597	2,615	2,661	3,878	5,344	5,370	5,374
750	2,250	2,500	2,225	1,975	1,975	1,475
600	300	300	300	300	300	300
3,317	3,229	3,141	3,002	2,920	2,765	2,678
14,126	13,239	11,747	10,398	9,674	8,275	6,956
(1,961)	(1,783)	(1,074)	102	239	160	(3)
16,082	14,985	14,114	13,802	13,133	11,500	9,931
$ 314,025	$ 279,212	$ 285,892	$ 296,380	$ 284,425	$ 253,171	$ 222,691

n **T60** Consolidated Statement of Income

For the year ended October 31 ($ millions)	2009	2008	2007	2006
Interest income				
Loans	**$ 13,973**	$ 15,832	$ 13,985	$ 11,575
Securities	**4,090**	4,615	4,680	4,124
Securities purchased under resale agreements	**390**	786	1,258	1,102
Deposits with banks	**482**	1,083	1,112	881
	18,935	22,316	21,035	17,682
Interest expenses				
Deposits	**8,339**	12,131	10,850	8,589
Subordinated debentures	**285**	166	116	130
Capital instrument liabilities	**37**	37	53	53
Other	**1,946**	2,408	2,918	2,502
	10,607	14,742	13,937	11,274
Net interest income	**8,328**	7,574	7,098	6,408
Provision for credit losses	**1,744**	630	270	216
Net interest income after provision for credit losses	**6,584**	6,944	6,828	6,192
Other income	**6,129**	4,302	5,392	4,800
Net interest and other income	**12,713**	11,246	12,220	10,992
Non-interest expenses				
Salaries and employee benefits	**4,344**	4,109	3,983	3,768
Other(2)	**3,575**	3,187	3,011	2,675
Restructuring provisions following acquisitions	**—**	—	—	—
	7,919	7,296	6,994	6,443
Income before the undernoted	**4,794**	3,950	5,226	4,549
Provision for income taxes	**1,133**	691	1,063	872
Non-controlling interest in net income of subsidiaries	**114**	119	118	98
Net income	**$ 3,547**	$ 3,140	$ 4,045	$ 3,579
Preferred dividends paid and other	**186**	107	51	30
Net income available to common shareholders	**$ 3,361**	$ 3,033	$ 3,994	$ 3,549
Average number of common shares outstanding (millions):				
Basic	**1,013**	987	989	988
Diluted	**1,016**	993	997	1,001
Earnings per common share (in dollars):				
Basic	**$ 3.32**	$ 3.07	$ 4.04	$ 3.59
Diluted	**$ 3.31**	$ 3.05	$ 4.01	$ 3.55
Dividends per common share (in dollars)	**$ 1.96**	$ 1.92	$ 1.74	$ 1.50

(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 loss on disposal of subsidiary operations in 2003 and 2002 of $31 and $237, respectively.

2005	2004	2003	2002	2001	2000	1999[1]
$ 9,236	$ 8,480	$ 9,073	$ 9,635	$ 11,530	$ 11,044	$ 9,972
3,104	2,662	2,859	3,087	3,062	2,286	1,874
817	594	872	1,073	1,519	1,085	682
646	441	442	573	872	916	943
13,803	12,177	13,246	14,368	16,983	15,331	13,471
5,755	4,790	5,222	5,519	8,233	8,192	7,284
134	112	139	203	303	324	314
53	164	182	158	136	120	99
1,990	1,410	1,735	1,971	2,247	1,616	1,201
7,932	6,476	7,278	7,851	10,919	10,252	8,898
5,871	5,701	5,968	6,517	6,064	5,079	4,573
230	390	893	2,029	1,425	765	635
5,641	5,311	5,075	4,488	4,639	4,314	3,938
4,529	4,320	4,015	3,942	4,071	3,665	3,183
10,170	9,631	9,090	8,430	8,710	7,979	7,121
3,488	3,452	3,361	3,344	3,220	2,944	2,627
2,555	2,410	2,370	2,630	2,442	2,209	2,149
—	—	—	—	—	(34)	(20)
6,043	5,862	5,731	5,974	5,662	5,119	4,756
4,127	3,769	3,359	2,456	3,048	2,860	2,365
847	786	777	594	869	983	860
71	75	160	154	102	43	46
$ 3,209	$ 2,908	$ 2,422	$ 1,708	$ 2,077	$ 1,834	$ 1,459
25	16	16	16	16	16	16
$ 3,184	$ 2,892	$ 2,406	$ 1,692	$ 2,061	$ 1,818	$ 1,443
998	1,010	1,010	1,009	1,001	991	986
1,012	1,026	1,026	1,026	1,018	1,003	996
$ 3.19	$ 2.87	$ 2.38	$ 1.68	$ 2.06	$ 1.83	$ 1.46
$ 3.15	$ 2.82	$ 2.34	$ 1.65	$ 2.02	$ 1.81	$ 1.45
$ 1.32	$ 1.10	$ 0.84	$ 0.73	$ 0.62	$ 0.50	$ 0.44

n **T61** Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	2009	2008	2007	2006
Preferred shares				
Balance at beginning of year	**$ 2,860**	$ 1,635	$ 600	$ 600
Issued	**850**	1,225	1,035	—
Balance at end of year	**3,710**	2,860	1,635	600
Common shares and contributed surplus				
Balance of common shares at beginning of year	**3,829**	3,566	3,425	3,316
Issued	**1,117**	266	184	135
Purchased for cancellation	**—**	(3)	(43)	(26)
Balance of common shares at end of year	**4,946**	3,829	3,566	3,425
Contributed surplus: Fair value of stock options	**—**	—	—	—
Total	**4,946**	3,829	3,566	3,425
Retained earnings				
Balance at beginning of year	**18,549**	17,460	15,843	14,126
Adjustments	**—**	—	(61)(1)	(25)(2)
Net income	**3,547**	3,140	4,045	3,579
Dividends: Preferred	**(186)**	(107)	(51)	(30)
Common	**(1,990)**	(1,896)	(1,720)	(1,483)
Purchase of shares and premium on redemption	**—**	(37)	(586)	(324)
Other	**(4)**	(11)	(10)	—
Balance at end of year	**19,916**	18,549	17,460	15,843
Accumulated other comprehensive income (loss)(5)				
Balance at beginning of year	**(3,596)**	(3,857)	(2,321)	(1,961)
Cumulative effect of adopting new accounting policies	**595(6)**	—	683	—
Other comprehensive income (loss)	**(799)**	261	(2,219)	(360)
Balance at end of year	**(3,800)**	(3,596)	(3,857)	(2,321)
Total shareholders' equity at end of year	**$24,772**	$21,642	$18,804	$17,547

Consolidated Statement of Comprehensive income

For the year ended October 31 ($ millions)	2009	2008	2007	2006
Comprehensive Income				
Net income	**$ 3,547**	$ 3,140	$ 4,045	$ 3,579
Other comprehensive income (loss), net of income taxes:				
Net change in unrealized foreign currency translation losses	**(1,736)**	2,368	(2,228)	(360)
Net change in unrealized gains (losses) on available-for-sale securities	**894**	(1,588)	(67)	—
Net change in gains (losses) on derivative instruments designated as cash flow hedges	**43**	(519)	76	—
Other comprehensive income (loss)	**(799)**	261	(2,219)	(360)
Comprehensive income	**$ 2,748**	$ 3,401	$ 1,826	$ 3,219

(1) Results from the adoption of new financial instruments accounting standards.

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

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

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

(5) Relates to the increase in the general allowance for credit losses as a direct change to retained earnings in the fourth quarter of 1999 (refer to footnote 1 on page 96).

(6) Relates to the adoption of the new accounting standard for impairment and classification of financial instruments. Refer to Note 1 of the Consolidated Financial Statements for details.

	2005	2004	2003	2002	2001	2000	1999
$	300	$ 300	$ 300	$ 300	$ 300	$ 300	$ 300
	300	—	—	—	—	—	—
	600	300	300	300	300	300	300
	3,228	3,140	3,002	2,920	2,765	2,678	2,625
	172	117	163	101	155	87	53
	(84)	(29)	(25)	(19)	—	—	—
	3,316	3,228	3,140	3,002	2,920	2,765	2,678
	1	1	1	—	—	—	—
	3,317	3,229	3,141	3,002	2,920	2,765	2,678
	13,239	11,747	10,398	9,674	8,275	6,956	6,257
	—	—	—	(76)[3]	(39)[4]	—	(314)[5]
	3,209	2,908	2,422	1,708	2,077	1,834	1,459
	(25)	(16)	(16)	(16)	(16)	(16)	(16)
	(1,317)	(1,110)	(849)	(732)	(621)	(496)	(429)
	(973)	(290)	(201)	(154)	—	—	—
	(7)	—	(7)	(6)	(2)	(3)	(1)
	14,126	13,239	11,747	10,398	9,674	8,275	6,956
	(1,783)	(1,074)	102	239	160	(3)	157
	—	—	—	—	—	—	—
	(178)	(709)	(1,176)	(137)	79	163	(160)
	(1,961)	(1,783)	(1,074)	102	239	160	(3)
$	16,082	$ 14,985	$ 14,114	$ 13,802	$ 13,133	$ 11,500	$ 9,931

	2005	2004	2003	2002	2001	2000	1999
$	3,209	$ 2,908	$ 2,422	$ 1,708	$ 2,077	$ 1,834	$ 1,459
	(178)	(709)	(1,176)	(137)	79	163	(160)
	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
	(178)	(709)	(1,176)	(137)	79	163	(160)
$	3,031	$ 2,199	$ 1,246	$ 1,571	$ 2,156	$ 1,997	$ 1,299

n **T62** Other statistics

For the year ended October 31	2009	2008	2007	2006
Operating performance				
Basic earnings per share ($)	**3.32**	3.07	4.04	3.59
Diluted earnings per share ($)	**3.31**	3.05	4.01	3.55
Return on equity (%)(2)	**16.7**	16.7	22.0	22.1
Productivity ratio (%)(TEB(2))	**53.7**	59.4	53.7	55.3
Return on assets (%)	**0.69**	0.69	1.00	1.02
Net interest margin on total average assets (%)(TEB (2))	**1.68**	1.75	1.89	1.95
Capital measures(3)				
Tier 1 capital ratio (%)	**10.7**	9.3	9.3	10.2
Total capital ratio (%)	**12.9**	11.1	10.5	11.7
Assets to capital multiple (4)	**16.6**	18.0	18.2	17.1
Common equity to risk-weighted assets (%)	**9.7**	8.3	7.8	8.8
Tangible common equity to risk-weighted assets (2)(5) (%)	**8.2**	6.6	7.4	8.3
Common share information				
Share price ($):				
High	**49.19**	54.00	54.73	49.80
Low	**23.99**	35.25	46.70	41.55
Close	**45.25**	40.19	53.48	49.30
Number of shares outstanding (millions)	**1,025**	992	984	990
Dividends per share ($)	**1.96**	1.92	1.74	1.50
Dividend yield (%) (6)	**5.4**	4.3	3.4	3.3
Price to earnings multiple (7)	**13.6**	13.1	13.2	13.7
Book value per common share ($)	**20.55**	18.94	17.45	17.13
Other information				
Average total assets ($ millions)	**513,149**	455,539	403,475	350,709
Number of branches and offices	**2,686**	2,672	2,331	2,191
Number of employees (8)	**67,802**	69,049	58,113	54,199
Number of automated banking machines	**5,778**	5,609	5,283	4,937

(1) If the increase in the general provision had been charged to income (refer to footnote 1 on page 96), these 1999 financial ratios would have been: return on equity 12.0%, return on assets 0.50%, basic earnings per share $1.14, diluted earnings per share $1.13, dividend payout 38.0% and price-to-earnings multiple 14.3.

(2) Non-GAAP measure. Refer to non-GAAP measures on page 27.

(3) Effective November 1, 2007, regulatory capital ratios are determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.

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

(5) Comparative amounts have been restated to reflect a new definition of tangible common equity. Refer to non-GAAP measures on page 27.

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

(7) Based on the closing common share price.

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

2005	2004	2003	2002	2001	2000	1999
3.19	2.87	2.38	1.68	2.06	1.83	1.46(1)
3.15	2.82	2.34	1.65	2.02	1.81	1.45(1)
20.9	19.9	17.6	13.0	17.3	17.6	15.3(1)
56.3	56.9	55.9	55.7	54.6	57.3	60.1
1.04	1.02	0.84	0.58	0.76	0.77	0.64(1)
2.00	2.10	2.16	2.29	2.32	2.21	2.07
11.1	11.5	10.8	9.9	9.3	8.6	8.1
13.2	13.9	13.2	12.7	13.0	12.2	11.9
15.1	13.8	14.4	14.5	13.5	13.7	13.5
9.7	9.9	9.2	8.6	8.1	7.3	6.9
9.3	9.7	8.9	8.3	7.8	7.0	6.7
44.22	40.00	33.70	28.10	25.25	22.83	18.45
36.41	31.08	22.28	21.01	18.65	13.03	14.30
42.99	39.60	32.74	22.94	21.93	21.75	16.80
990	1,009	1,011	1,008	1,008	996	989
1.32	1.10	0.84	0.73	0.62	0.50	0.44
3.3	3.1	3.0	3.0	2.8	2.8	2.7
13.5	13.8	13.8	13.7	10.6	11.9	11.5(1)
15.64	14.56	13.67	13.39	12.74	11.25	9.74
309,374	283,986	288,513	296,852	271,843	238,664	229,037
1,959	1,871	1,850	1,847	2,005	1,695	1,654
46,631	43,928	43,986	44,633	46,804	40,946	40,894
4,449	4,219	3,918	3,693	3,761	2,669	2,322

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Management's Responsibility for Financial Information

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

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

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

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

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

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

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

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

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, have audited the consolidated financial statements of the Bank for each of the years in the three-year period ended October 31, 2009 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and have expressed their opinions upon completion of such audits in the following report to the shareholders. The Shareholders' Auditors have full and free access to, and meet periodically with, the Audit and Conduct Review Committee to discuss their audit, including any findings as to the integrity of the Bank's accounting, financial reporting and related matters.

Rick Waugh
President and Chief Executive Officer

Luc Vanneste
Executive Vice-President
and Chief Financial Officer

Toronto, Canada

December 8, 2009

Shareholders' Auditors' Report

To the Shareholders of The Bank of Nova Scotia

We have audited the Consolidated Balance Sheets of The Bank of Nova Scotia (the "Bank") as at October 31, 2009 and 2008 and the Consolidated Statements of Income, Changes in Shareholders' Equity, Comprehensive Income and Cash Flows for each of the years in the three-year period ended October 31, 2009. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2009 in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Canada

December 8, 2009

Consolidated Balance Sheet

As at October 31 ($ millions)	2009	2008
Assets		
Cash resources		
Cash and non-interest-bearing deposits with banks	**$ 3,355**	$ 2,574
Interest-bearing deposits with banks	**34,343**	32,318
Precious metals	**5,580**	2,426
	43,278	37,318
Securities (Note 3)		
Trading	**58,067**	48,292
Available-for-sale	**55,699**	38,823
Equity accounted investments	**3,528**	920
	117,294	88,035
Securities purchased under resale agreements	**17,773**	19,451
Loans (Note 4)		
Residential mortgages	**101,604**	115,084
Personal and credit cards	**61,048**	50,719
Business and government	**106,520**	125,503
	269,172	291,306
Allowance for credit losses (Note 5 (b))	**2,870**	2,626
	266,302	288,680
Other		
Customers' liability under acceptances	**9,583**	11,969
Derivative instruments (Note 27 (d))	**25,992**	44,810
Land, buildings and equipment (Note 7)	**2,372**	2,449
Goodwill (Note 8)	**2,908**	2,273
Other intangible assets (Note 8)	**561**	521
Other assets (Note 9)	**10,453**	12,119
	51,869	74,141
	$496,516	$507,625
Liabilities and shareholders' equity		
Deposits (Note 10)		
Personal	**$123,762**	$118,919
Business and government	**203,594**	200,566
Banks	**23,063**	27,095
	350,419	346,580
Other		
Acceptances	**9,583**	11,969
Obligations related to securities sold under repurchase agreements	**36,568**	36,506
Obligations related to securities sold short	**14,688**	11,700
Derivative instruments (Note 27 (d))	**28,806**	42,811
Other liabilities (Note 11)	**24,682**	31,063
Non-controlling interest in subsidiaries	**554**	502
	114,881	134,551
Subordinated debentures (Note 12)	**5,944**	4,352
Capital instrument liabilities (Note 13)	**500**	500
Shareholders' equity		
Capital stock (Note 14)		
Preferred shares	**3,710**	2,860
Common shares	**4,946**	3,829
Retained earnings	**19,916**	18,549
Accumulated other comprehensive income (loss) (Note 16)	**(3,800)**	(3,596)
	24,772	21,642
	$496,516	$507,625

John T. Mayberry
Chairman of the Board

Rick Waugh
President and Chief Executive Officer

Refer to Note 1 for the impact of adopting new accounting standards.

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

Consolidated Statement of Income

For the year ended October 31 ($ millions)	2009	2008	2007
Interest income			
Loans	**$ 13,973**	$ 15,832	$ 13,985
Securities	**4,090**	4,615	4,680
Securities purchased under resale agreements	**390**	786	1,258
Deposits with banks	**482**	1,083	1,112
	18,935	22,316	21,035
Interest expenses			
Deposits	**8,339**	12,131	10,850
Subordinated debentures	**285**	166	116
Capital instrument liabilities	**37**	37	53
Other	**1,946**	2,408	2,918
	10,607	14,742	13,937
Net interest income	**8,328**	7,574	7,098
Provision for credit losses (Note 5 (b))	**1,744**	630	270
Net interest income after provision for credit losses	**6,584**	6,944	6,828
Other income			
Card revenues	**424**	397	366
Deposit and payment services	**905**	862	817
Mutual funds	**371**	317	296
Investment management, brokerage and trust services	**728**	760	760
Credit fees	**866**	579	530
Trading revenues	**1,057**	188	450
Underwriting fees and other commissions	**620**	402	498
Foreign exchange other than trading	**373**	314	239
Net gain (loss) on securities, other than trading (Note 3 (d))	**(412)**	(374)	488
Securitization revenues	**409**	130	34
Other	**788**	727	914
	6,129	4,302	5,392
Net interest and other income	**12,713**	11,246	12,220
Non-interest expenses			
Salaries and employee benefits	**4,344**	4,109	3,983
Premises and technology (1)	**1,543**	1,417	1,335
Communications	**346**	326	300
Advertising and business development	**307**	320	311
Professional	**216**	227	227
Business and capital taxes	**177**	116	143
Other (1)	**986**	781	695
	7,919	7,296	6,994
Income before the undernoted	**4,794**	3,950	5,226
Provision for income taxes (Note 18)	**1,133**	691	1,063
Non-controlling interest in net income of subsidiaries	**114**	119	118
Net income	**$ 3,547**	$ 3,140	$ 4,045
Preferred dividends paid	**186**	107	51
Net income available to common shareholders	**$ 3,361**	$ 3,033	$ 3,994
Average number of common shares outstanding (millions)(Note 20):			
Basic	**1,013**	987	989
Diluted	**1,016**	993	997
Earnings per common share (in dollars) (2) (Note 20):			
Basic	**$ 3.32**	$ 3.07	$ 4.04
Diluted	**$ 3.31**	$ 3.05	$ 4.01
Dividends per common share (in dollars)	**$ 1.96**	$ 1.92	$ 1.74

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

(1) Refer to Note 1 for the impact of adopting the new accounting standard for goodwill and intangible assets.

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

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	2009	2008	2007
Preferred shares (Note 14)			
Balance at beginning of year	**$ 2,860**	$ 1,635	$ 600
Issued	**850**	1,225	1,035
Balance at end of year	**3,710**	2,860	1,635
Common shares (Note 14)			
Balance at beginning of year	**3,829**	3,566	3,425
Issued	**1,117**	266	184
Purchased for cancellation	**—**	(3)	(43)
Balance at end of year	**4,946**	3,829	3,566
Retained earnings			
Balance at beginning of year as previously reported	**18,549**	17,460	15,843
Cumulative effect of adopting new accounting policies	**—**	—	(61)(1)
Balance at beginning of year as restated	**18,549**	17,460	15,782
Net income	**3,547**	3,140	4,045
Dividends: Preferred	**(186)**	(107)	(51)
Common	**(1,990)**	(1,896)	(1,720)
Purchase of shares	**—**	(37)	(586)
Other	**(4)**	(11)	(10)
Balance at end of year	**19,916**	18,549	17,460
Accumulated other comprehensive income (loss)			
Balance at beginning of year as previously reported	**(3,596)**	(3,857)	(2,321)
Cumulative effect of adopting new accounting policies	**595**(2)	—	683(1)
Balance at beginning of year as restated	**(3,001)**	(3,857)	(1,638)
Other comprehensive income (loss) (Note 16)	**(799)**	261	(2,219)
Balance at end of year	**(3,800)**	(3,596)	(3,857)
Total shareholders' equity at end of year	**$24,772**	$21,642	$18,804

Consolidated Statement of Comprehensive Income

For the year ended October 31 ($ millions)	2009	2008	2007
Comprehensive income			
Net income	**$ 3,547**	$ 3,140	$ 4,045
Other comprehensive income (loss), net of income taxes (Note 16):			
Net change in unrealized foreign currency translation losses	**(1,736)**	2,368	(2,228)
Net change in unrealized gains (losses) on available-for-sale securities	**894**	(1,588)	(67)
Net change in gains (losses) on derivative instruments designated as cash flow hedges	**43**	(519)	76
Other comprehensive income (loss)	**(799)**	261	(2,219)
Comprehensive income	**$ 2,748**	$ 3,401	$ 1,826

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

(2) Refer to Note 1 for impact of adopting new accounting policies in 2009 as a result of the amendment of the accounting standard related to classification and impairment of financial instruments.

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)	2009	2008	2007
Cash flows from operating activities			
Net income	**$ 3,547**	$ 3,140	$ 4,045
Adjustments to determine net cash flows from (used in) operating activities:			
Depreciation and amortization	**330**	291	267
Provision for credit losses	**1,744**	630	270
Future income taxes	**162**	(367)	(106)
Net gain (loss) on securities, other than trading	**412**	374	(488)
Changes in operating assets and liabilities:			
Net accrued interest receivable and payable	**(229)**	60	18
Trading securities	**(10,898)**	13,721	334
Derivative assets	**17,320**	(15,292)	(13,616)
Derivative liabilities	**(12,009)**	11,202	14,548
Other, net	**(11,426)**	6,290	(3,336)
	(11,047)	20,049	1,936
Cash flows from financing activities			
Deposits	**17,031**	28,106	41,746
Obligations related to securities sold under repurchase agreements	**1,109**	6,913	(3,858)
Obligations related to securities sold short	**3,165**	(5,020)	3,848
Subordinated debentures issued	**2,000**	3,144	—
Subordinated debentures redemptions/repayments	**(359)**	(691)	(500)
Capital instrument liabilities redemptions/repayments	**—**	—	(250)
Preferred shares issued	**600**	1,225	1,035
Common shares issued	**585**	234	112
Common shares redeemed/purchased for cancellation	**—**	(40)	(629)
Cash dividends paid	**(2,176)**	(2,003)	(1,771)
Other, net	**(1,789)**	(101)	3,391
	20,166	31,767	43,124
Cash flows from investing activities			
Interest-bearing deposits with banks	**(5,781)**	(5,052)	(7,087)
Securities purchased under resale agreements	**980**	3,793	1,897
Loans, excluding securitizations	**(12,583)**	(47,483)	(42,028)
Loan securitizations	**11,879**	5,121	3,756
Securities, other than trading			
Purchases	**(40,197)**	(41,444)	(32,133)
Maturities	**7,422**	16,842	14,015
Sales	**31,985**	19,346	17,267
Land, buildings and equipment, net of disposals	**(199)**	(401)	(242)
Other, net(1)	**(1,635)**	(2,399)	(390)
	(8,129)	(51,677)	(44,945)
Effect of exchange rate changes on cash and cash equivalents	**(209)**	297	(257)
Net change in cash and cash equivalents	**781**	436	(142)
Cash and cash equivalents at beginning of year	**2,574**	2,138	2,280
Cash and cash equivalents at end of year (2)	**$ 3,355**	$ 2,574	$ 2,138
Cash disbursements made for:			
Interest	**$ 11,138**	$ 14,544	$ 13,625
Income taxes	**$ 1,234**	$ 1,212	$ 905

(1) Comprises investments in subsidiaries, associated corporations and business units, and the purchase of assets related to these investments, which are net of non-cash consideration consisting of common shares issued from treasury of $523 (2008 – nil; 2007 – $36), net of cash and cash equivalents at the date of acquisition of $4 (2008 – $37; 2007 – $6), and net of non-cumulative preferred shares issued of $250 (2008 – nil, 2007 – nil).

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

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

The accompanying notes are an integral part of these 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 Super intendent), 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 29 describes and reconciles the significant measurement differences between Canadian and U.S. GAAP affecting the accompanying consolidated financial statements.

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

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

Changes in accounting standards and policies

Classification and impairment of financial assets

In August 2009, the Canadian Institute of Chartered Accountants (CICA) amended Section 3855, Financial Instruments — Recognition and Measurement, to achieve substantial consistency with International Financial Reporting Standards (IFRS). The amendments were effective for the Bank commencing November 1, 2008 and adopt the definition of loans and receivables from IFRS. The new definition of loans and receivables allows debt securities not quoted in an active market to be classified as loans and carried at amortized cost, or permits the Bank to designate these instruments as available-for-sale, measured at fair value with unrealized gains and losses recorded through other comprehensive income. The amendments also require that credit related impairment charges be recognized in the consolidated statement of income for instruments carried at amortized cost as well as the reversal of impairment charges for debt instruments classified as available-for-sale. Impairment charges for debt securities classified as loans are recorded through the provision for credit losses.

The Bank has reclassified certain securities not quoted in an active market and not managed on a fair value basis to loans and receivables measured at amortized cost. Impairment of debt securities classified as loans will be assessed and recorded in accordance with the Bank's accounting policies for Loans and Allowance for Credit Losses.

In accordance with these amendments, changes have been made effective November 1, 2008. Periods prior to November 1, 2008 have not been restated as a result of implementing the new accounting standards.

The following table summarizes the impact of reclassification and impairment of financial assets and related impairment, as applicable, as at November 1, 2008:

$ millions Balance sheet category	Increase/ (Decrease)	Explanation
Securities	$ (8,529)	Decrease represents fair value of debt securities reclassified to loans
Loans	9,447	Increase represents the aggregate of the fair value of debt securities reclassified to loans and the unrealized losses on such securities
Future income tax assets (Other assets)	(323)	Decrease reflects the change in future income tax assets due to changes in accumulated other comprehensive income
Accumulated other comprehensive income (after-tax)	595	Increase represents the after-tax amount of unrealized losses on debt securities reclassified to loans, previously recorded in accumulated other comprehensive income

Financial instrument disclosures

In June 2009, the CICA issued amendments to its Financial Instruments — Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under IFRS. These amendments were effective for the Bank commencing November 1, 2008 and introduces a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of instruments. The fair values for the three levels are based on:

- Level 1 — quoted prices in active markets
- Level 2 — models using observable inputs other than quoted market prices
- Level 3 — models using inputs that are not based on observable market data

Goodwill and intangible assets

In February 2008, the CICA issued a new accounting standard for Goodwill and Intangible Assets, which the Bank adopted effective November 1, 2008. As a result of adopting the new standard, certain software costs previously recorded as Land, buildings and equipment are now recorded as Other intangible assets in the Consolidated Balance Sheet. Accordingly, as at October 31, 2008, $239 million was reclassified from Land, building and equipment to Other intangible assets. The related amortization expense that was previously recorded in non-interest expenses – Premises and technology on the Consolidated Statement of Income is now recorded as non-interest expenses – Other. Accordingly, $34 million for the period ended October 31, 2008 was reclassified from Premises and technology non-interest expenses to Other non-interest expenses.

Prior year changes in accounting standards

Reclassification of financial assets

In October 2008, the CICA issued amendments to the accounting standard on Financial Instruments – Recognition and Measurement. The amendments permit the reclassification of non-derivative financial assets out of the held-for-trading category under rare circumstances. For the period ended October 31, 2008, the Bank was permitted to retrospectively reclassify items from August 1, 2008. Any future reclassifications would need to be applied prospectively. In accordance with these

amendments, the Bank reclassified specified assets out of trading securities to available-for-sale securities effective August 1, 2008. These assets were comprised of $303 million of bond assets and $91 million of preferred shares that were no longer traded in an active market and which management intends to hold for the foreseeable future. As of the reclassification date, the weighted average effective interest rate on the reclassified bond asset portfolio was 4.0%, with expected recoverable cash flows of $366 million. As at October 31, 2009, the fair values of the bond assets and preferred shares are $257 million (2008 – $277 million) and $67 million (2008 – $81 million), respectively. Due to the reclassification of the bond assets and preferred shares, for the year ended October 31, 2009, the Bank recorded pre-tax gains in other comprehensive income of $33 million (2008 – losses of $26 million) and $9 million (2008 – losses of $10 million), respectively, relating to fair value movements. If these reclassifications had not been made, these gains and losses would have been recorded in the consolidated statement of income.

Capital disclosures

In December 2006, the CICA issued an accounting standard that establishes requirements for Capital Disclosures. This was effective for the Bank commencing November 1, 2007 and requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital and whether an entity has complied with any capital requirements and consequences of non-compliance with such capital requirements.

Financial instruments disclosures

In December 2006 the CICA issued two accounting standards on Financial Instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These standards were effective for the Bank commencing November 1, 2007. The new disclosures provide additional information on the nature and extent of risks arising from financial instruments to which the Bank is exposed and how it manages those risks.

Changes in accounting standards prior to November 1, 2007

In fiscal 2007, the Bank adopted three new accounting standards: *(i) Financial Instruments – Recognition and Measurement, (ii) Hedges and (iii) Comprehensive Income.* The new standards require all financial assets and financial liabilities to be carried at fair value in the Consolidated Balance Sheet, except the following, which are carried at amortized cost unless designated as held for trading upon initial recognition: loans and receivables, securities designated as held-to-maturity and non-trading financial liabilities. The methods used by the Bank in determining the fair value of financial instruments were unchanged as a result of implementing these new accounting standards.

The main requirements of the standards and the related accounting policies subsequently adopted by the Bank are discussed in the following paragraphs.

Prior periods were not restated as a result of implementing the new accounting standards, except that unrealized foreign currency translation gains/losses on net investments in self-sustaining operations were reclassified to accumulated other comprehensive income (loss).

As a result of these changes, the Bank recorded a net reduction of $61 million (net of income tax benefit of $31 million) to opening retained earnings in 2007. This transition impact arose primarily from recognizing in retained earnings the deferred gains and losses relating to certain previously discontinued hedges.

Basis of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Bank and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by the Bank, which are normally corporations in which the Bank owns more than 50% of the voting shares.

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

The Bank consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both.

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

Translation of foreign currencies

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

Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining operations, together with any gains or losses arising from hedges of those net investment positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains/losses in the Consolidated Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains or losses thereon in accumulated other comprehensive income are reclassified to the Consolidated Statement of Income.

Translation gains and losses arising in the Bank's integrated foreign operations, as well as those arising from self-sustaining foreign operations in highly inflationary environments, if any, are included in other income – trading revenues in the Consolidated Statement of Income.

Revenues and expenses denominated in foreign currencies are translated using average exchange rates, except for depreciation and

amortization of foreign currency denominated buildings, equipment and leasehold improvements of the Bank's integrated foreign operations, which are translated using historical rates.

Unrealized foreign currency translation gains and losses arising from available-for-sale financial assets are included in other comprehensive income as unrealized gains/losses on available-for-sale securities until realized, at which time they are reclassified from accumulated other comprehensive income to the Consolidated Statement of Income.

Precious metals

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

Securities

Securities are categorized as available-for-sale, trading, held-to-maturity or equity accounted investments. Securities designated as available-for-sale are recorded at fair value with unrealized gains and losses recorded in other comprehensive income until realized, at which time they are recorded in the Consolidated Statement of Income. Available-for-sale equity securities that do not have a quoted market price in an active market, are recorded at cost, where fair values are not reliably measurable.

Premiums, discounts and related transaction costs on available-for-sale debt securities are amortized over the expected life of the

instrument to interest income – securities in the Consolidated Statement of Income using the effective interest method. When there has been a decline in value of available-for-sale debt or equity instrument that is other than temporary, the carrying value of the securities is reduced to fair value. Such reductions, if any, together with realized gains and losses on disposals, which are determined on an average cost basis, are reclassified from other comprehensive income and included in other income – net gain (loss) on available-for-sale assets in the Consolidated Statement of Income.

Commencing November 1, 2008, recoveries in fair value for which other than temporary impairment charges had been recognized due to events occurring after the date of impairment are included in net income, to a maximum of the original impairment charge. Prior to fiscal 2009, these recoveries in fair value were included in other comprehensive income.

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

Commencing November 1, 2008, certain debt securities are classified as loans and carried at amortized cost. Debt securities which are not trading securities or have not been designated as available-for-sale securities and that are not quoted in an active market are classified as loans. Debt securities not classified as loans are classified as either trading or available-for-sale.

The Bank accounts for the purchase and sale of securities using settlement date accounting for purposes of the Consolidated Balance Sheet and the Consolidated Statement of Income.

Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis.

Obligations related to securities sold short

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

Transactions costs

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

Loans

Commencing November 1, 2008, the definition of loans includes debt instruments that are not quoted in an active market and have fixed or determinable cash flows. As a result, certain debt securities which are not classified as trading securities or have not been designated as available-for-sale securities, and are not quoted in an active market are classified as loans on the Consolidated Balance Sheet. Prior to fiscal 2009, debt securities were not permitted to be classified loans and were treated as either trading or available-for-sale securities.

In addition, certain loans that are managed on a fair value basis or are purchased to economically hedge credit derivatives transacted for customers are classified as trading loans, through the fair value option (see Note 26).

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in other assets in the Consolidated Balance Sheet. Loans are accounted for at amortized cost, except those designated as trading which are carried at fair value. Loan origination costs are deferred and amortized into income using the effective interest method over the expected term of the loan. Loan fees are recognized in interest income over the appropriate lending or commitment period. Mortgage prepayment fees are recognized in interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized using the effective interest method over the remaining period of the original mortgage. Loan syndication fees are included in credit fees in other income.

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

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

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

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

Allowance for credit losses

The Bank maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all incurred credit-related losses in its portfolio of the following on-and off-balance sheet items: deposits with banks, securities purchased under resale agreements, loans, acceptances and other indirect credit commitments, such as letters of credit and guarantees. The allowance for credit losses consists of specific allowances,

general allowance and a sectoral allowance which are reviewed on a regular basis. Full or partial write-offs of loans are generally recorded when management believes there is no realistic prospect of full recovery. Actual write-offs, net of recoveries, are deducted from the allowance for credit losses.

Specific allowances

Specific allowances, except those relating to credit card loans, residential mortgages and most personal loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used

to measure the estimated realizable amount. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the provision for credit losses in the Consolidated Statement of Income. Specific allowances for credit card loans, residential mortgages and most personal loans are calculated using a formula method taking into account recent loss experience. The allowance for credit losses against on-balance sheet items is reflected as a reduction of the related asset category, and allowances relating to off-balance sheet items are included in other liabilities in the Consolidated Balance Sheet.

General allowance

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

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

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

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

While the total general allowance is established through a step-by-step process that considers risk arising from specific segments of the portfolio, the resulting total general allowance is available to absorb all incurred losses in the loan portfolio for which there has been no specific provision.

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

Sectoral allowances

A sectoral allowance is established when an industry sector or geographic region experiences specific adverse events or changes in economic conditions and it is considered necessary to establish an additional allowance for loan losses for the group of loans as a whole, even though the individual loans comprising the group are still classified as performing. These allowances are considered sectoral and are established for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowance.

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

Sales of loans

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

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the Bank would not recover substantially all of its recorded investment are classified in available-for-sale securities in the Consolidated Balance Sheet. Such retained interests are tested regularly for other-than-temporary impairment and, if required, the retained interest's carrying value is reduced to fair value by a charge to other income – net gain (loss) on securities, other than trading in the Consolidated Statement of Income. Other retained interests are classified and accounted for as loans.

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

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

Acceptances

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

Land, buildings and equipment

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

The Bank performs impairment testing on its long-lived assets when events or changes in circumstance indicate that an asset's carrying value

may not be recoverable. The asset is written down to fair value when the carrying value of the asset exceeds the projected future undiscounted cash flows.

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

Goodwill and other intangible assets

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

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

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

Capital instrument liabilities

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

Corporate income taxes

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

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

Derivative instruments

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

The Bank enters into these derivative contracts for trading purposes, as well as to manage its exposures. Trading activities are undertaken to meet the needs of the Bank's customers, as well as for the Bank's own account to generate trading income. Derivative instruments designated as "asset/liability management" (non-trading) are those used to manage the Bank's interest rate, foreign currency and other exposures. These include instruments that meet specified criteria to be designated as hedges for accounting purposes.

All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the Consolidated Balance Sheet. The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments. Inception gains or losses on derivatives are only recognized where the valuation is dependent on observable market data, otherwise, they are deferred over the life of the related contract, or until the valuation inputs become observable.

The gains and losses resulting from changes in fair values of trading derivatives are included in other income – trading revenues in the Consolidated Statement of Income.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking these derivatives to specific assets and liabilities on the Consolidated Balance Sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses both at the hedge's inception and on an ongoing basis whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

There are three types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges. For fair value hedges, the change in fair value of the hedging derivative is offset in the Consolidated Statement of Income by the change in fair value of the hedged item relating to the hedged risk. The Bank utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate. The main financial instruments designated in fair value hedging relationships include debt securities, loans, deposit liabilities and subordinated debentures.

For cash flow hedges, the change in fair value of the hedging derivative is recorded in other comprehensive income, to the extent it is effective, until the hedged item affects the Consolidated Statement of Income. The Bank utilizes cash flow hedges primarily to convert floating rate deposit liabilities to fixed rate.

For net investment hedges, the change in fair value of the hedging instrument, to the extent effective, is recorded directly in other comprehensive income. These amounts are recognized in income when the corresponding cumulative translation adjustments from self-sustaining foreign operations are recognized in income.

Hedge ineffectiveness is measured and recorded in current period income in the Consolidated Statement of Income. When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the original hedge, or when the hedged item is derecognized. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value without any offset from the hedged item.

Changes in the fair value of asset/liability management derivatives that do not qualify for hedge accounting are carried at fair value in the Consolidated Balance Sheet, and subsequent changes in their fair value recorded in the Consolidated Statement of Income as follows: interest-related contracts in net interest income; options used in managing non-trading securities in net gain (loss) on securities, other than trading; and other derivative contracts in other income – other. Where derivative instruments are used to manage the volatility of stock-based compensation, these derivatives are carried at fair value with changes in the fair value included in salaries and employee expense, in the Consolidated Statement of Income.

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 10 to 22 years. For principal other benefit plans, these periods range from 9 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 10 to 22 years and from 9 to 27 years, respectively. A pension valuation allowance is recognized if the prepaid benefit expense (the cumulative difference between pension income/expense and funding contributions) is more than the Bank's expected future benefit.

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

Certain employees outside of Canada participate in defined contribution pension plans. The costs for such plans are equal to Bank contributions made to employees' accounts during the year.

Stock-based compensation

The Bank has stock option plans and other stock-based compensation plans for certain eligible employees and non-officer directors that are described more fully in Note 17.

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

The Bank's other stock-based compensation plans are accounted for in a similar manner as stock options with Tandem SAR features, except that other stock-based compensation expense is recognized evenly over an applicable vesting period.

Effective in fiscal 2006, for SARs, including Tandem SARs and other stock-based compensation, the Bank recognizes i) the compensation costs attributable to stock-based compensation awards granted to employees who are eligible to retire on the grant date immediately on the grant date; and ii) compensation costs attributable to stock-based compensation awards granted to employees who will become eligible to retire during the vesting period over the timeframe between the grant date and the date of retirement eligibility.

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

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

Earnings per share (EPS)

Basic EPS is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted-average number of diluted common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted EPS is determined using the treasury stock method. The treasury stock method determines the number of incremental common shares by assuming that the outstanding stock options, whose exercise price is less than the average market price of the Bank's common stock during the period, are exercised and the proceeds used to purchase common shares at the average market price. The incremental number of common shares is included in the calculation of diluted shares.

Guarantees

A liability is recorded for the fair value of the obligation assumed at the inception of certain guarantees. The guarantees affected include standby letters of credit, letters of guarantee, credit enhancements and other similar contracts. The fair value of the obligation at inception is generally based on the discounted cash flow of the premium to be received for the guarantee, resulting in a corresponding asset.

2 Future accounting changes

The following summarizes future accounting changes that will be relevant to the Bank's consolidated financial statements subsequent to October 31, 2009.

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

In January 2009, the CICA issued new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests. The Business Combinations standard provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Most acquisition-related costs must be accounted for as expenses in the periods they are incurred. This new standard will be applicable for acquisitions that are completed on or after November 1, 2011 although adoption in 2010 is permitted to facilitate the transition to International Financial Reporting Standards in 2011. The Consolidated Financial Statements standard establishes guidance for preparing consolidated financial statements after the acquisition date. The Non-controlling Interests standard provides guidance on the accounting and presentation of non-controlling interest. These new standards must all be adopted concurrently.

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has determined that profit-oriented publicly accountable enterprises will be required to adopt International Financial Reporting Standards. IFRS will replace current Canadian GAAP for those enterprises. For the Bank, IFRS will be effective for interim and annual periods commencing November 1, 2011, including the preparation and reporting of one year of comparative figures. The Bank is currently in the process of evaluating the impacts and implications of converting to IFRS. The impact of IFRS on the Bank's consolidated financial results at the time of transition and on implementation is being assessed.

3 Securities

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

	Remaining term to maturity					2009	2008
As at October 31 ($ millions)	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	Carrying value	Carrying value
Trading securities:							
Canadian federal government debt	$ 577	$ 2,277	$ 7,140	$ 8,408	$ —	**$ 18,402**	$ 10,942
Canadian provincial and municipal debt	591	816	1,010	2,323	—	**4,740**	5,224
U.S. treasury and other U.S. agencies' debt	57	1,187	388	1,067	—	**2,699**	3,433
Other foreign governments' debt	181	141	1,103	139	—	**1,564**	2,130
Common shares	—	—	—	—	19,698	**19,698**	19,103
Other	2,156	1,979	4,990	1,714	125	**10,964**	7,460
Total	3,562	6,400	14,631	13,651	19,823	**58,067**(1)	48,292
Available-for-sale securities:							
Canadian federal government debt	6	209	10,573	814	—	**11,602**	3,638
Mortgage-backed securities(2)	23	252	21,013	96	—	**21,384**	6,430
Canadian provincial and municipal debt	—	—	1,168	16	—	**1,184**	14
U.S. treasury and other U.S. agencies' debt	132	5	170	394	—	**701**	2,176
Other foreign governments' debt	1,238	944	3,667	2,140	—	**7,989**	7,085
Bonds of designated emerging markets	—	—	63	382	—	**445**	469
Other debt	881	1,276	5,156	2,286	—	**9,599**	15,800
Preferred shares	—	—	—	—	421	**421**	539
Common shares(3)	—	—	—	—	2,374	**2,374**	2,672
Total	2,280	2,686	41,810	6,128	2,795	**55,699**	38,823(4)
Equity accounted investments:	—	—	—	—	3,528(5)	**3,528**	920
Total securities	$ 5,842	$ 9,086	$ 56,441	$ 19,779	$ 26,146	**$ 117,294**	$ 88,035
Total by currency (in Canadian equivalent):							
Canadian dollar	$ 2,787	$ 6,332	$ 43,817	$ 13,382	$ 19,928	**$ 86,246**	$ 51,191
U.S. dollar	642	864	6,567	3,950	4,186	**16,209**	23,678
Mexican peso	712	255	865	209	135	**2,176**	4,112
Other currencies	1,701	1,635	5,192	2,238	1,897	**12,663**	9,054
Total securities	$ 5,842	$ 9,086	$ 56,441	$ 19,779	$ 26,146	**$ 117,294**	$ 88,035

(1) Includes $278 in mortgage-backed securities.

(2) Includes securities retained by the Bank in connection with its mortgage securitizations. The outstanding balance of these mortgage-backed securities is $20,864 (2008 – $6,054). Canada Mortgage and Housing Corporation provides a guarantee of timely payment to NHA mortgage-backed security investors.

(3) The carrying value of available-for-sale equity securities that are not quoted in an active market is $958 (2008 – $1,098).

(4) Includes debt securities of $8,529, which were reclassified to loans on November 1, 2008. Refer to Note 1 for further details.

(5) Equity accounted investments have no stated term, and as a result, have been classified in the “No specific maturity” column.

(b) An analysis of unrealized gains and losses on available-for-sale securities is as follows:

As at October 31 ($ millions)	2009 Cost(1)	2009 Gross unrealized gains	2009 Gross losses	2009 Fair value	2008 Cost(1)	2008 Gross unrealized gains	2008 Gross unrealized losses	2008 Fair value
Canadian federal government debt	**$ 11,507**	**$ 163**	**$ 68**	**$ 11,602**	$ 3,596	$ 43	$ 1	$ 3,638
Mortgage-backed securities	**20,972**	**488**	**76**	**21,384**	6,257	192	19	6,430
Canadian provincial and municipal debt	**1,164**	**20**	**—**	**1,184**	14	—	—	14
U.S. treasury and other U.S. agencies' debt	**706**	**9**	**14**	**701**	2,178	12	14	2,176
Other foreign governments' debt	**7,703**	**321**	**35**	**7,989**	6,983	226	124	7,085
Bonds of designated emerging markets	**270**	**175**	**—**	**445**	334	140	5	469
Other debt	**9,609**	**224**	**234**	**9,599**	17,207	66	1,473	15,800
Preferred shares	**544**	**17**	**140**	**421**	598	5	64	539
Common shares	**2,211**	**224**	**61**	**2,374**	2,884	134	346	2,672
Total available-for-sale securities	**$ 54,686**	**$ 1,641**	**$ 628**	**$ 55,699**	$ 40,051	$ 818	$ 2,046	$ 38,823

(1) Cost for debt securities is amortized cost.

The net unrealized gain (loss) on available-for-sale securities of $1,013 million (2008 — ($1,228) million) decreases to a net unrealized gain (loss) of $828 million (2008 — increases to ($1,320) million) after the net fair value of derivative instruments and other hedge amounts associated with these securities is taken into account. The net unrealized gain (loss) on available-for-sale securities is recorded in accumulated other comprehensive income.

(c) An analysis of available-for-sale securities with continuous unrealized losses:

As at October 31 ($ millions)	2009 Less than 12 months Cost	Fair value	Unrealized losses	12 months or greater Cost	Fair value	Unrealized losses	Total Cost	Fair value	Unrealized losses
Canadian federal government debt	**$ 3,331**	**$ 3,263**	**$ 68**	**$ —**	**$ —**	**$ —**	$ 3,331	**$ 3,263**	**$ 68**
Mortgage-backed securities	**3,975**	**3,905**	**70**	**13**	**7**	**6**	**3,988**	**3,912**	**76**
Canadian provincial and municipal debt	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
U.S. treasury and other U.S. agencies' debt	**67**	**65**	**2**	**54**	**42**	**12**	**121**	**107**	**14**
Other foreign governments' debt	**1,252**	**1,245**	**7**	**210**	**182**	**28**	**1,462**	**1,427**	**35**
Bonds of designated emerging market	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other debt	**2,163**	**2,088**	**75**	**2,729**	**2,570**	**159**	**4,892**	**4,658**	**234**
Preferred shares	**10**	**7**	**3**	**435**	**298**	**137**	**445**	**305**	**140**
Common shares	**276**	**249**	**27**	**242**	**208**	**34**	**518**	**457**	**61**
Total	**$11,074**	**$10,822**	**$ 252**	**$ 3,683**	**$ 3,307**	**$ 376**	**$14,757**	**$14,129**	**$ 628**

As at October 31 ($ millions)	2008 Less than 12 months Cost	Fair value	Unrealized losses	12 months or greater Cost	Fair value	Unrealized losses	Total Cost	Fair value	Unrealized losses
Canadian federal government debt	$ 297	$ 296	$ 1	$ —	$ —	$ —	$ 297	$ 296	$ 1
Mortgage-backed securities	55	54	1	91	73	18	146	127	19
Canadian provincial and municipal debt	12	12	—	—	—	—	12	12	—
U.S. treasury and other U.S. agencies' debt	848	835	13	8	7	1	856	842	14
Other foreign governments' debt	2,402	2,325	77	558	511	47	2,960	2,836	124
Bonds of designated emerging market	85	80	5	—	—	—	85	80	5
Other debt	13,807	12,558	1,249	1,446	1,222	224	15,253	13,780	1,473
Preferred shares	470	416	54	60	50	10	530	466	64
Common shares	1,007	713	294	320	268	52	1,327	981	346

Total	$18,983	$17,289	$ 1,694	$2,483	$2,131	$ 352	$21,466	$19,420	$ 2,046

As at October 31, 2009, the cost of 667 (2008 — 1,208) available-for-sale securities exceeded their fair value by $628 million (2008 — $2,046 million). This unrealized loss is recorded in accumulated other comprehensive income as part of unrealized gains (losses) on available-for-sale securities. Of the 667 (2008 — 1,208) securities, 340 (2008 — 227) have been in an unrealized loss position continuously for more than a year, amounting to an unrealized loss of $376 million (2008 — $352 million). The unrealized losses on the debt instruments decreased from last year due to improvements in credit spreads and the reclassification of certain debt securities to loans. Refer to Note 1 for further details. The Bank holds a diversified portfolio of available-for-sale equities. For these investments, improvements in equity markets have reduced the unrealized losses that arose during the latter part of fiscal 2008. Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature.

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

(d) An analysis of net gain (loss) on securities, other than trading (1) is as follows:

For the year ended October 31 ($ millions)	2009	2008	2007
Realized gains	**$ 593**	$ 666	$ 708
Realized losses	**316**	401	85
Impairment writedowns	**689**	639	135
Net gain (loss) on securities, other than trading	**$ (412)**	$ (374)	$ 488

(1) These securities relate to available-for-sale securities and equity accounted investments.

Net gains realized on available-for-sale equity securities which did not have a quoted market price were $28 million for the year ended October 31, 2009 (2008 — $69 million; 2007 — $293 million).

4 Loans

(a) Loans outstanding by geography

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

As at October 31 ($ millions)	2009	2008
Canada:		
Residential mortgages	**$ 88,766**	$102,326
Personal and credit cards	**49,266**	41,386
Business and government	**33,540**	34,749
	171,572	178,461
United States:		
Personal	**2,879**	—
Business and government	**17,669**	25,842
	20,548	25,842
Mexico:		
Residential mortgages	**3,357**	3,092
Personal and credit cards	**2,214**	2,132
Business and government	**4,742**	6,262
	10,313	11,486
Other International:		
Residential mortgages	**9,481**	9,666
Personal and credit cards	**6,689**	7,201
Business and government	**50,569**	58,650
	66,739	75,517
	269,172	291,306
Less: allowance for credit losses	**2,870**	2,626
Total(2)	**$266,302**	$288,680(3)

(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 $56,283 (2008 — $71,532), loans denominated in Mexican pesos amount to $8,247 (2008 — $8,821) and loans denominated in other foreign currencies amount to $33,238 (2008 — $35,669).

(3) Effective November 1, 2008, debt securities with an amortized cost of $9,447 were reclassified to loans. As a result, personal loans increased by $7,715 and business and government loans increased by $1,732. Refer to Note 1 for further details.

(b) Loans and acceptances by type of borrower

	2009		2008	
As at October 31 ($ millions)	**Balance**	**% of total**	Balance	% of total
Personal				
Residential mortgages	**$101,363**	**36.5%**	$114,852	38.0%
Credit cards	**11,104**	**4.0**	11,169	3.7
Personal loans	**49,256**	**17.8**	38,942	12.9
	161,723	**58.3**	164,963	54.6
Businesses and government				
Financial services	**18,760**	**6.8**	18,665	6.2
Wholesale and retail	**10,853**	**3.9**	14,905	4.9
Real estate	**11,677**	**4.2**	13,500	4.5
Oil and gas	**9,777**	**3.5**	11,997	4.0
Transportation	**7,763**	**2.8**	8,520	2.8
Automotive	**5,074**	**1.8**	7,124	2.4
Agriculture	**4,344**	**1.6**	5,259	1.7
Government	**3,326**	**1.2**	3,372	1.1
Hotels and leisure	**4,766**	**1.7**	5,215	1.7
Mining and primary metals	**5,745**	**2.1**	8,137	2.7

Utilities	**6,138**	**2.2**	6,307	2.1
Health care	**3,986**	**1.4**	4,997	1.7
Telecommunications and cable	**4,567**	**1.6**	6,528	2.2
Media	**2,729**	**1.0**	4,659	1.5
Chemical	**1,338**	**0.5**	1,746	0.6
Food and beverage	**3,788**	**1.4**	3,078	1.0
Forest products	**1,528**	**0.6**	2,081	0.7
Other	**9,497**	**3.4**	10,919	3.6
	$115,656	**41.7%**	$137,009	45.4%
	277,379	**100.0%**	301,972	100.0%
General allowance	**(1,450)**		(1,323)	
Sectoral allowance	**(44)**		—	
Total loans and acceptances	**$275,885**		$300,649	

(c) Sales of loans through securitizations

The Bank securitizes residential mortgages through the creation of mortgage-backed securities. The gain on sale of the mortgages resulting from these securitizations, before issuance costs, is recognized in other income in the Consolidated Statement of Income. The key weighted-average assumptions used to measure fair value at the dates of securitization were a prepayment rate of 22.5% (2008 — 20.0%; 2007 — 20.0%), an excess spread of 1.8% (2008 — 1.4%; 2007 — 0.8%), and a discount rate of 2.4% (2008 — 3.9%; 2007 — 4.5%). 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)	2009	2008	2007
Net cash proceeds(1)	**$ 11,879**	$ 5,121	$ 3,756
Retained interest	**480**	165	98
Retained servicing liability	**(69)**	(30)	(27)
	12,290	5,256	3,827
Residential mortgages securitized(2)	**11,953**	5,174	3,827
Net gain on sale(3)	**$ 337**	$ 82	$ —

(1) Excludes insured mortgages which were securitized and retained by the Bank during the year of $20,923 (2008 — $3,885; 2007 — $2,983). These assets are classified as available-for-sale securities and have an outstanding balance of $20,864 (2008 — $6,054; 2007 — $4,375) [refer to Note 3a].

(2) Includes sales of mortgage-backed securities in the current period that related to residential mortgages securitized by the Bank in prior periods but retained by the Bank at that time of $2,126 (2008 — $1,299; 2007 — nil).

(3) Net of issuance costs.

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

As at October 31 ($ millions)	2009	2008
Fair value of the retained interest ($)	**519**	302
Weighted average life (in years)	**3**	4
Prepayment rate (%)	**22.8**	17.3
Impact on fair value of a 10% adverse change ($)	**(17)**	(7)
Impact on fair value of a 20% adverse change ($)	**(33)**	(14)
Residual cash flow annual discount rate (%)	**0.35-2.8**	2.2-4.0
Impact on fair value of a 10% adverse change ($)	**(1)**	(2)
Impact on fair value of a 20% adverse change ($)	**(3)**	(3)
Excess spread (%)	**1.8**	1.2
Impact on fair value of a 10% adverse change ($)	**(55)**	(30)
Impact on fair value of a 20% adverse change ($)	**(109)**	(60)

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:

	2009			2008			2007		
($ millions)	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31
Residential mortgages(1)(2)	**$ 17,494**	**$ 35**	**$ —**	$ 12,787	$ 14	$ —	$ 11,631	$ 15	$ —
Personal loans	**199**	**3**	**3**	235	6	4	414	14	57
Total	**$ 17,693**	**$ 38**	**$ 3**	$ 13,022	$ 20	$ 4	$ 12,045	$ 29	$ 57

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

(2) Excludes past due payments relating to residential mortgages insured by CMHC of $19 (2008 — $9; 2007 — $8).

(d) Loans past due but not impaired (1)

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are fully secured or collection efforts are reasonably expected to result in repayment, or restoring it to a current status within 180 days from the date a payment has become contractually in arrears.

As at October 31, 2009 ($ millions)	31 - 60 days	61 - 90 days	91 days and greater	Total
Residential mortgages	$ 1,173	$ 463	$ 302	$ 1,938
Personal and credit cards	429	220	61	710
Business and government	342	201	168	711
Total	$ 1,944	$ 884	$ 531	$ 3,359

(1) Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

5 Impaired loans and allowance for credit losses

(a) Impaired loans

As at October 31 ($ millions)	Gross[1]	Specific allowance[2]	2009 Net	2008 Net
By loan type:				
Residential mortgages	$ 1,119	$ (241)	**$ 878**	$ 432
Personal and credit cards	881	(688)	**193**	84
Business and government	1,939	(447)	**1,492**	675
Total	$ 3,939[3][4]	$ (1,376)	**$ 2,563**	$ 1,191
By geography:				
Canada			**$ 719**	$ 354
United States			**354**	80
Other International			**1,490**	757
Total			**$ 2,563**	$ 1,191

(1) Gross impaired loans denominated in U.S. dollars amounted to $1,057 (2008 — $658) and those denominated in other foreign currencies amounted to $1,680 (2008 - $1,084).

(2) The specific allowance for impaired loans evaluated on an individual basis totalled $446 (2008 — $462).

(3) Individual impaired loans without an allowance for credit losses totalled $616 (2008 — $365).

(4) Average balance of gross impaired loans totalled $3,402 (2008 — $2,011).

(b) Allowance for credit losses

As at October 31 ($ millions)	2009 Balance at beginning of year	Write-offs[1]	Recoveries	Provision for credit losses	Other, including foreign currency adjustment[2]	Balance at end of year[3]	2008 Balance at end of year	2007 Balance at end of year
Specific								
Residential mortgages	**$ 232**	**$ (64)**	**$ 27**	**$ 25**	**$ 21**	**$ 241**	$ 232	$ 129
Personal and credit cards	**608**	**(1,139)**	**141**	**1,042**	**36**	**688**	608	434
Business and government	**471**	**(457)**	**55**	**506**	**(123)**	**452**	471	391
	1,311	**(1,660)**	**223**	**1,573**	**(66)**	**1,381[3]**	1,311[3]	954[3]
Sectoral[4]	—	—	—	**44**	—	**44**	—	—
General	**1,323**	—	—	**127**	—	**1,450[5]**	1,323	1,298
	$ 2,634	**$ (1,660)**	**$ 223**	**$ 1,744**	**$ (66)**	**$ 2,875**	$ 2,634	$ 2,252

(1) Write-offs of loans restructured during the year were nil (2008 — nil; 2007 — nil).

(2) Includes $9 in specific allowances related to acquisitions in 2009, $232 in specific allowances and $25 in general allowances from acquisitions in 2008, and $38 in specific allowances and $16 in general allowances from acquisitions in 2007.

(3) As at October 31, 2009, $5 (2008 — $8; 2007 — $11) has been recorded in other liabilities.

(4) The sectoral allowance is established to reflect the deterioration in the automotive industry sector, within the business and government category.

(5) The general allowance is substantially allocated to business and government loans.

6 Variable interest entities

(a) Consolidated VIEs:

The following table provides information about variable interest entities (VIEs) that the Bank consolidated.

As at October 31 ($ millions)	2009 Total assets	2008 Total assets
Funding vehicles	**$ 2,585**	$ 5,207
Other	**51**	631

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

Subsequent to the year-end, one of the consolidated VIEs that provided the Bank with external financing has been wound up. This has not resulted in any material impact on the Bank's consolidated financial statements.

The assets supporting the obligations of these consolidated VIEs as at October 31, 2009 are as follows: cash and non-interest bearing deposits with banks of $10 million (2008 — $11 million); Canadian residential mortgage loans of $2,523 million (2008 — $5,140 million); trading securities of $53 million (2008 — $617 million); and other assets of $50 million (2008 — $70 million). In general, the investors in the obligations

of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to the Bank except where the Bank has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

(b) Other VIEs

The following table provides information about other VIEs in which the Bank has a significant variable interest but is not the primary beneficiary. A significant variable interest is generally considered to exist where the Bank absorbs or receives between 10% and 50% of the VIE's expected losses, expected residual returns, or both.

	2009		2008	
As at October 31 ($ millions)	Total assets	Maximum exposure to loss	Total assets	Maximum exposure to loss
Multi-seller conduits that the Bank administers	**$ 5,913**	**$ 5,913**	$12,283	$12,283
Structured finance entities	**7,088**	**4,975**	6,705	4,269
Collateralized debt obligation entities	**556**	**307**	399	847
Other	**691**	**188**	941	140

The Bank's maximum exposure to loss as at October 31 represents the notional amounts of guarantees, liquidity facilities, and other credit support relationships with the VIE, the credit risk amount for certain derivative contracts with the entities, and the amount invested where the Bank holds an ownership interest in the VIE. Of the aggregate amount of maximum exposure to loss, the Bank has recorded $5.5 billion (2008 — $5.3 billion), primarily its ownership interest in the VIEs, on its Consolidated Balance Sheet as at October 31, 2009.

Multi-seller conduits that the Bank administers

The Bank currently sponsors three multi-seller conduits, two of which are Canadian-based and one in the United States. The conduits purchase assets from outside parties (the sellers) funded by the issuance of asset-backed commercial paper. The sellers continue to service the assets and provide credit enhancements for their portion of the programs through overcollateralization protection and cash reserves. The Bank has no rights to these assets as they are available to support the obligations of the respective programs, but manages for a fee the commercial paper selling programs. To ensure timely repayment of the commercial paper, each asset pool financed by the multi-seller conduits has a deal-specific liquidity asset purchase agreement (LAPA) with the Bank. Pursuant to the terms of the LAPA, the Bank as the liquidity provider is obligated to purchase assets, including defaulted assets, transferred by the conduit at the conduit's original cost as reflected in the table above. As well, in some instances the Bank is counterparty to derivative contracts with these conduit programs and provides them with a large portion of their backstop liquidity and partial credit enhancement facilities [see Note 23]. The Bank provides additional liquidity facilities to these multi-seller conduits to a maximum amount of $3.8 billion (2008 — $5.0 billion) based on future asset purchases by these conduits.

During fiscal 2009, there were no changes to the obligations of the subordinated note holder and no reconsideration events have occurred.

During 2008, the Bank's U.S. Multi-seller Commercial Paper Conduit (the "U.S. Conduit"), transferred certain CDO and CLO assets to the Bank pursuant to the terms of its liquidity asset purchase agreements. Pre-tax charges of $298 million were recorded during the prior year to the Consolidated Income Statement representing the difference between the amounts paid (original cost of the assets) and the fair value of the assets on the dates transferred to the Bank. The acquisition of the assets by the Bank was pursuant to the existing LAPA arrangements and was not executed to protect the subordinated note holder from potential losses on any of the U.S. Conduit's holdings, including the assets acquired.

In 2008, the U.S. Conduit increased the amount of the subordinated note issued to an unrelated party as a consequence of these transfers of assets to the Bank. This subordinated note absorbed the majority of the expected losses of the remaining assets of the U.S. Conduit. Accordingly, the Bank was not the primary beneficiary and therefore did not have to consolidate the U.S. Conduit as at October 31, 2008.

Structured finance entities

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

Collateralized debt obligation entities

The Bank holds an interest in VIEs structured to match specific investor requirements. Loans or credit derivatives are held by the VIEs to create security offerings for investors that match their investment needs and preferences. The Bank's maximum exposure to loss includes the credit risk amounts relating to derivative contracts with these VIEs.

Other

Other includes investments in privately managed funds and other VIEs. The Bank's maximum exposure to loss includes its net investment in these funds.

7 Land, buildings and equipment

			2009	2008
As at October 31 ($ millions)	Cost	Accumulated depreciation & amortization	**Net book value**	Net book value
Land	$ 350	$ —	**$ 350**	$ 390
Buildings	1,783	706	**1,077**	1,104
Equipment	2,965	2,419	**546**	552
Leasehold improvements	1,037	638	**399**	403
Total	$ 6,135	$ 3,763	**$ 2,372**	$ 2,449

Depreciation and amortization in respect of the above buildings, equipment, and leasehold improvements for the year amounted to $234 million (2008 — $209 million; 2007 — $203 million).

8 Goodwill and other intangible assets

Goodwill

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

As at October 31 ($ millions)	Canadian Banking	International Banking	Scotia Capital	2009	2008	2007
Balance at beginning of year	$ 380	$ 1,749	$ 144	**$ 2,273**	$ 1,134	$ 873
Acquisitions	430	173	—	**603**	925	350
Effects of foreign exchange and other	(4)	52	(16)	**32**	214	(89)
Balance at end of year	$ 806	$ 1,974	$ 128	**$ 2,908**	$ 2,273	$ 1,134

Intangible assets

As at October 31 ($ millions)	Gross carrying amount	Accumulated amortization	2009 Net	2008 Net	2007 Net
Computer software	$ 341	$ 40	**$ 301**	$ 239	$ 210
Other intangible assets	630	370	**260**	282	273
Total	$ 971	$ 410	**$ 561**	521	483

Other intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense for the year ended October 31, 2009, was $96 million (2008 — $83 million; 2007 — $64 million).

9 Other assets

As at October 31 ($ millions)	2009	2008
Accrued interest	**$ 1,817**	$ 2,192
Accounts receivable	**1,422**	640
Future income tax assets (Note 18)	**2,577**	2,800
Receivable from brokers, dealers and clients	**265**	1,936
Other	**4,372**	4,551
Total	**$ 10,453**	$ 12,119

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	2009	2008
Personal	$ 3,817	$ 3,032	$ 43,873	$ 73,040	**$123,762**	$118,919
Business and government (1)	28,923	10,571	21,805	142,295	**203,594**	200,566
Banks	336	357	1,120	21,250	**23,063**	27,095
Total	$ 33,076	$ 13,960	$ 66,798	$ 236,585	**$350,419**	$346,580
Recorded in:						
Canada					**223,961**	229,284
United States					**58,082**	40,368
Mexico					**8,776**	10,268
Other International					**59,600**	66,660
Total(2)					**$350,419**	$346,580

(1) Includes deposit notes issued by the Bank to Scotiabank Capital Trust of $2,250 (2008 - $2,250), Scotiabank Subordinated Notes Trust of $1,000 (2008 — $1,000) and Scotiabank Tier 1 Trust of $650 (2008 — nil) [refer to Note 13].

(2) Deposits denominated in U.S. dollars amount to $116,453 (2008 — $100,283), deposits denominated in Mexican pesos amount to $7,897 (2008 — $9,632) and deposits denominated in other foreign currencies amount to $37,178 (2008 — $50,850).

11 Other liabilities

As at October 31 ($ millions)	2009	2008
Accrued interest	**$ 2,190**	$ 2,741
Accounts payable and accrued expenses	**5,428**	3,963
Deferred income	**627**	581
Future income tax liabilities (Note 18)	**337**	264
Gold and silver certificates and bullion	**3,856**	5,619
Margin and collateral accounts	**4,126**	8,434
Payable to brokers, dealers and clients	**179**	751
Other liabilities of subsidiaries and VIEs (1)	**4,634**	4,931
Other	**3,305**	3,779
Total	**$ 24,682**	$ 31,063

(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.

As at October 31 ($ millions)			2009		2008
Maturity date	Interest rate (%)	Terms[1]	Par value	Carrying value[2]	Carrying value[2]
September 2013	8.30	Redeemable at any time	**$ 250**	**$ 251**	$ 252
May 2014	5.75	Redeemed on May 12, 2009	**—**	**—**	329
January 2018	5.30	Redeemable at any time. After January 31, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1.90%	**300**	**300**	300
March 2018	4.99	Redeemable at any time. After March 27, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 2%	**1,700**	**1,719**	1,726
October 2018	6.00	Redeemable at any time. After October 3, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 3.25%	**950**	**950**	950
April 2019	4.94	Redeemable at any time. After April 15, 2014, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 4.24%	**1,000**	**1,000**	—
January 2021	6.65	Redeemable at any time. After January 22, 2016, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 5.85%	**1,000**	**1,000**	—
June 2025	8.90	Redeemable at any time	**250**	**271**	272
November 2037	3.015	JPY ¥10 billion. Redeemable on November 20, 2017	**120**	**128**	133
April 2038	3.37	JPY ¥10 billion. Redeemable on April 9, 2018	**120**	**128**	133
August 2085	Floating	US $182 million bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%. Redeemable on any interest payment date. Total repurchases in 2009 amounted to approximately US $32 million	**197**	**197**	257
			$ 5,887	**$ 5,944**	$ 4,352

The contractual maturities of the debentures are summarized in Note 24(b).

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

(2) The carrying value of subordinated debentures may differ from par value due to adjustments related to hedge accounting.

(3) For the year ended October 31, 2009, the Bank recorded a net realized gain of $14 related to repurchases of subordinated debentures.

13 Capital instrument liabilities, trust securities and trust subordinated notes

Capital instrument liabilities are financial instruments, which can be settled at the Bank's option by issuing a variable number of the Bank's own equity instruments. These instruments remain eligible as Tier 1 Capital for regulatory purposes.

Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust, and Scotiabank Tier 1 Trust are VIEs and are not consolidated on the Bank's balance sheet as the Bank is not the primary beneficiary. Therefore, the Scotiabank Trust Securities, Scotiabank Trust Subordinated Notes and the Scotiabank Tier 1 Trust Securities Notes issued by the Trusts are not reported on the Consolidated Balance Sheet. The deposit notes issued by the Bank to Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust are reported in Deposits [refer to Note 10]. These trust securities and trust subordinated notes remain eligible for inclusion in the Bank's regulatory capital as Tier 1 and Tier 2 capital, respectively.

As at October 31 ($ millions)	2009	2008
Capital instrument liabilities		
Scotiabank Trust Securities — Series 2000-1 issued by BNS Capital Trust (a)(f)(g)	**$ 500**	$ 500
Scotiabank Trust Securities not consolidated by the Bank		
Scotiabank Trust Securities — Series 2002-1 issued by Scotiabank Capital Trust (b)(f)(g)	**$ 750**	$ 750
Scotiabank Trust Securities — Series 2003-1 issued by Scotiabank Capital Trust (c)(f)(g)	**750**	750
Scotiabank Trust Securities — Series 2006-1 issued by Scotiabank Capital Trust (d)(f)(g)	**750**	750
Scotiabank Tier 1 Securities — Series 2009-1 issued by Scotiabank Tier 1 Trust (e)(f)(g)	**650**	—
Scotiabank Trust Subordinated Notes not consolidated by the Bank		
Scotiabank Trust Subordinated Notes — Series A issued by Scotiabank Subordinated Notes Trust (h)	**$ 1,000**	$ 1,000

(a) On 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.

(b) On April 30, 2002, Scotiabank Capital Trust, a wholly-owned open-end trust, issued 750,000 Scotiabank Trust Securities — Series 2002-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $33.13 per security. With regulatory approval, these securities may be redeemed in whole by the payment of cash, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series W of the Bank. The Series W shares will be entitled to cash dividends payable semi-annually in an amount of $0.53125 per $25.00 share. Under the circumstances outlined in (f) below the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series X of the Bank. The Series X shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.70 per $25.00 share [refer to 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.

(c) On February 13, 2003, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities - Series 2003-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $31.41 per security. With regulatory approval, 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.

(d) On September 28, 2006, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities - Series 2006-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $28.25 per security. With regulatory approval, these securities may be redeemed in whole 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.

(e) On May 7, 2009, Scotiabank Tier 1 Trust issued 650,000 Scotiabank Tier 1 Securities Series 2009-1 (Scotia BaTS III). These securities qualify as Tier 1 capital. Interest is payable semi-annually in the amount of $39.01 per Scotia BaTS III Series 2009-1 on the last day of June and December until June 30, 2019. After June 30, 2019 and on every fifth anniversary thereafter until June 30, 2104, the interest rate on the Scotia BaTS III Series 2009-1 will be reset at an interest rate per annum equal to the then prevailing 5-year Government of Canada Yield plus 7.05%. The first interest payment paid on June 30, 2009 was in the amount of $11.54 per Scotia BaTS III Series 2009-1. On or after June 30, 2014, the Trust may, at its option redeem the Scotia BaTS III Series 2009-1, in whole or in part, subject to regulatory approval. Under the circumstances outlined in (f) below, the Scotia BaTS III Series 2009-1, including accrued and unpaid interest thereon, would be exchanged automatically without the consent of the holder, into newly issued non-cumulative Preferred Shares Series R of the Bank. In addition, in certain circumstances, holders of Scotia BaTS III Series 2009-1 may be required to invest interest paid on the Scotia BaTS III Series 2009-1 in a series of newly-issued preferred shares of the Bank with non-cumulative dividends (each such series is referred to as Bank Deferral Preferred Shares). The proceeds of the issue were used to acquire the Series 2009-1 Bank Deposit Note. If there is an automatic exchange of the Scotia BaTS Preferred Shares, then the Bank would become the sole beneficiary of the Trust. Scotiabank Tier 1 Trust which is a special purpose entity is not consolidated by the Bank as the Bank is not the primary beneficiary. These securities are reported on the consolidated balance sheet as deposit notes issued by the Bank to Scotiabank Tier 1 Trust.

(f) The Scotia BaTS and Scotia BaTS III may be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares of the Bank in the following circumstances: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; or (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction.

(g) No cash distributions will be payable on the Scotia BaTS and Scotia BaTS III in the event that the regular dividend is not declared on the Bank's preferred shares and, if no preferred shares are outstanding, the Bank's common shares. In such a circumstance the net distributable funds of the Trust will be payable to the Bank as the holder of the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions on the Scotia BaTS in full, the Bank will not declare dividends of any kind on any of its preferred or common shares for a specified period of time [refer to Note 14 — Restrictions on dividend payments].

(h) On October 31, 2007, the Bank issued 1,000,000 Scotiabank Trust Subordinated Notes ("Scotia TSNs — Series A"), through a new special purpose entity, Scotiabank Subordinated Notes Trust, a closed-end trust established under the laws of the Province of Ontario. The proceeds were used to purchase a deposit note from the Bank which is reported as a Business and government deposit in the Consolidated Balance Sheet.

Holders of the Scotia TSNs — Series A are entitled to receive interest at the rate of 5.25% per annum payable semi-annually until October 31, 2012. The first such payment was paid on May 1, 2008, in an amount of $26.393 per $1,000 principal amount. Commencing November 1, 2012 until November 1, 2017, interest will be payable on the Scotia TSNs — Series A at the 90-day Banker's Acceptance Rate plus 1% per annum payable quarterly with the first such payment on February 1, 2013. These securities may be redeemed in whole by the payment of cash with regulatory approval.

The Bank has guaranteed the payments of principal, interest, redemption price, if any, and any other amounts on the Scotia TSNs — Series A when they become due and payable. This guarantee will be a direct, unsecured obligation, and will be subordinate to the Bank's deposit liabilities and all other liabilities, except for other guarantees, obligations or liabilities that are either designated as ranking equally with or subordinated to the subordinated indebtedness. In addition, the Scotia TSNs - - Series A will be automatically exchanged, without the consent of the holders, into an equal principal amount of 5.25% Bank Subordinated Notes upon occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction; or (v) the Bank determines that as a result of the enactment or anticipated enactment of federal Canadian income tax legislation, the interest payable on the Scotia TSNs — Series A will not be deductible by Scotiabank Subordinated Notes Trust for tax purposes.

14 Capital stock

Authorized:

An unlimited number of preferred and common shares without nominal or par value.

Issued and fully paid:

	2009		2008		2007	
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	12,000,000	300
Series 14(c)	**13,800,000**	**345**	13,800,000	345	13,800,000	345
Series 15(d)	**13,800,000**	**345**	13,800,000	345	13,800,000	345
Series 16(e)	**13,800,000**	**345**	13,800,000	345	13,800,000	345
Series 17(f)	**9,200,000**	**230**	9,200,000	230	—	—
Series 18(g)	**13,800,000**	**345**	13,800,000	345	—	—
Series 20(h)	**14,000,000**	**350**	14,000,000	350	—	—
Series 22(i)	**12,000,000**	**300**	12,000,000	300	—	—
Series 24(j)	**10,000,000**	**250**	—	—	—	—
Series 26(k)	**13,000,000**	**325**	—	—	—	—
Series 28(l)	**11,000,000**	**275**	—	—	—	—
Total preferred shares	**148,400,000**	**$ 3,710**	114,400,000	$ 2,860	65,400,000	$ 1,635
Common shares:						
Outstanding at beginning of year	**991,923,631**	**$ 3,829**	983,767,155	$ 3,566	989,512,188	$ 3,425
Issued under Shareholder Dividend and Share Purchase Plan(m)	**14,304,029**	**516**	2,576,133	108	115,228	6
Issued under Stock Option Plans (Note 17)	**3,650,978**	**78**	6,404,516	155	5,485,060	142
Issued for acquisition of a subsidiary	**15,060,746**	**523**	50,827	3	691,679	36
Purchased for cancellation(n)	**—**	**—**	(875,000)	(3)	(12,037,000)	(43)
Outstanding at end of year	**1,024,939,384**	**$ 4,946**	991,923,631	$ 3,829	983,767,155	$ 3,566
Total capital stock		**$ 8,656**		$ 6,689		$ 5,201

(a) Series 12 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.328125 per share. 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 are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.30 per share. With regulatory approval, the shares may be redeemed by the Bank on or after April 28, 2010, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 28, 2014, following which no redemption premium is payable.

(c) Series 14 Non-cumulative Preferred Shares, issued on January 24, 2007, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.28125 per share. The initial dividend, paid April 26, 2007, was $0.28356 per share. With regula- tory approval, the shares may be redeemed by the Bank on or after April 26, 2012, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 27, 2016, following which no redemption premium is payable.

(d) Series 15 Non-cumulative Preferred Shares, issued on April 5, 2007 and April 17, 2007, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.28125 per share. The initial dividend, paid July 27, 2007, was $0.34829 per share. With regulatory approval, the shares may be redeemed by the Bank on or after July 27, 2012, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption and thereafter at annually declining premiums until July 27, 2016, following which no redemption premium is payable.

(e) Series 16 Non-cumulative Preferred Shares, issued on October 12, 2007, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.328125 per share. The initial dividend, paid January 29, 2008, was $0.39195 per share. With regulatory approval, the shares may be redeemed by the Bank on or

after January 29, 2013, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until January 27, 2017, following which no redemption premium is payable.

(f) Series 17 Non-cumulative Preferred Shares, issued on January 31, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.35 per share. The initial dividend, paid April 28, 2008, was $0.33753 per share. With regulatory approval, the shares may be redeemed by the Bank on or after April 26, 2013, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 26, 2017, following which no redemption premium is payable.

(g) Series 18 Non-cumulative 5-Year Rate Reset Preferred Shares, issued on March 25, 2008, and March 27, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.3125 per share for the initial five-year fixed rate period ending on April 25, 2013. The initial dividend, paid July 29, 2008, was $0.4315 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the 5-year Government of Canada Yield plus 2.05%, multiplied by $25.00. Holders of Series 18 preferred shares will have the option to convert shares into an equal number of Series 19 non-cumulative floating rate preferred shares on April 26, 2013, and on April 26 every five years thereafter. Series 19 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared, in an amount per share equal to the sum of the T-Bill Rate plus 2.05%, multiplied by $25.00. If the Bank determines that, after giving effect to any election notices received, there would be less than 1,000,000 Series 18 preferred shares issued and outstanding on the applicable Series 18 conversion date, all of the issued and outstanding Series 18 preferred shares will be automatically converted on such Series 18 conversion date into an equal number of Series 19 preferred shares. With regulatory approval, Series 18 preferred shares may be redeemed by the Bank on April 26, 2013, and for Series 19 preferred shares, if applicable, on April 26, 2018 and every 5 years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends. On all other dates beginning April 26, 2013, Series 19 preferred shares are redeemable at $25.00 per share plus a redemption premium of $0.50 per share.

(h) Series 20 Non-cumulative 5-Year Rate Reset Preferred Shares, issued on June 10, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.3125 per share for the initial five-year fixed rate period ending on October 25, 2013. The initial dividend, paid July 29, 2008, was $0.1678 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the 5-year Government of Canada Yield plus 1.70%, multiplied by $25.00. Holders of Series 20 preferred shares will have the option to convert shares into an equal number of Series 21 non-cumulative floating rate preferred shares on October 26, 2013, and on October 26 every five years thereafter. Series 21 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared in an amount per share equal to the sum of the T-Bill Rate plus 1.70%, multiplied by $25.00. If the Bank determines that, after giving effect to any election notices received, there would be less than 1,000,000 Series 20 preferred shares issued and outstanding on the applicable Series 20 conversion date, all of the issued and outstanding Series 20 preferred shares will be automatically converted on such Series 20 conversion date into an equal number of Series 21 preferred shares. With regulatory approval, Series 20 preferred shares may be redeemed by the Bank on October 26, 2013, and for Series 21 preferred shares, if applicable, on October 26, 2018 and every 5 years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends. On all other dates beginning October 26, 2013, Series 21 preferred shares are redeemable at $25.00 per share plus a redemption premium of $0.50 per share.

(i) Series 22 Non-cumulative 5-Year Rate Reset Preferred Shares, issued on September 9, 2008, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.3125 per share for the initial five-year fixed rate period ending on January 25, 2014. The initial dividend, paid January 28, 2009, was $0.4829 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the 5-year Government of Canada Yield plus 1.88%, multiplied by $25.00. Holders of Series 22 preferred shares will have the option to convert shares into an equal number of Series 23 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. Series 23 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared in an amount per share equal to the sum of the T-Bill Rate plus 1.88%, multiplied by $25.00. If the Bank determines that, after giving effect to any Election Notices received, there would be less than 1,000,000 Series 22 preferred shares issued and outstanding on the applicable Series 22 conversion date, all of the issued and outstanding Series 22 preferred shares will be automatically converted on such Series 22 conversion date into an equal number of Series 23 preferred shares. With regulatory approval, Series 22 preferred shares may be redeemed by the Bank on January 26, 2014, and for Series 23 preferred shares, if applicable, on January 26, 2019 and every 5 years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends. On all other dates beginning January 26, 2014, Series 23 preferred shares are redeemable at $25.00 per share plus a redemption premium of $0.50 per share.

(j) Series 24 Non-cumulative 5-Year Rate Reset Preferred Shares were issued on December 12, 2008, as part of the acquisition of an interest in CI Financial. Holders are entitled to receive non-cumulative preferential cash dividends, payable quarterly in an amount of $0.3906 per share for the initial five-year fixed rate period ending on January 25, 2014. The initial dividend, paid April 28, 2009, was $0.5865 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the 5-year Government of Canada Yield plus 3.84%, multiplied by $25.00. Holders of Series 24 preferred shares have the option to convert shares into an equal number of Series 25 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. Series 25 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared, in an amount per share equal to the sum of the T-Bill Rate plus 3.84%, multiplied by $25.00. If the Bank determines that, after giving effect to any election notices received, there would be less than 1,000,000 Series 24 preferred shares issued and outstanding on the applicable Series 24 conversion date, all of the issued and outstanding Series 24 preferred shares will automatically be converted on such Series 24 conversion date into an equal number of Series 25 preferred shares. With regulatory approval, Series 24 preferred shares may be redeemed by the Bank on January 26, 2014, and, if applicable, Series 25 preferred shares on January 26, 2019 and every five years thereafter for $25.00 per share, together with declared and unpaid dividends. On all other dates beginning January 26, 2014, Series 25 preferred shares are redeemable at $25.00 per share plus a redemption premium of $0.50 per share.

(k) Series 26 Non-cumulative 5-Year Rate Reset Preferred Shares, issued on January 21, 2009, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.390625 per share for the initial five-year fixed rate period ending on April 25,

2014. The initial dividend, paid April 28, 2009, was $0.41524 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the 5-year Government of Canada Yield plus 4.14%, multiplied by $25.00. Holders of Series 26 preferred shares have the option to convert shares into an equal number of Series 27 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. Series 27 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared, in an amount per share equal to the sum of the T-Bill Rate plus 4.14%, multiplied by $25.00. If the Bank determines that, after giving effect to any election notices received, there would be less than 1,000,000 Series 26 preferred shares issued and outstanding on the applicable Series 26 conversion date, all of the issued and outstanding Series 26 preferred shares will automatically be converted on such Series 26 conversion date into an equal number of Series 27 preferred shares. With regulatory approval, Series 26 preferred shares may be redeemed by the Bank on April 26, 2014, and for Series 27 preferred shares, if applicable, on April 26, 2019, respectively, at $25.00 per share, together with declared but unpaid dividends, and every 5 years thereafter. On all other dates beginning April 26, 2014, Series 27 preferred shares are redeemable at $25.00 per share plus a redemption premium of $0.50 per share.

(l) Series 28 Non-cumulative 5-Year Rate Reset Preferred Shares, issued on January 30, 2009, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount of $0.390625 per share for the initial five-year fixed rate period ending on April 25, 2014. The initial dividend, paid April 28, 2009, was $0.37671 per share. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the 5-year Government of Canada Yield plus 4.46%, multiplied by $25.00. Holders of Series 28 preferred shares have the option to convert shares into an equal number of Series 29 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. Series 29 preferred shares are entitled to receive floating rate non-cumulative preferential cash dividends, if and when declared, in an amount per share equal to the sum of the T-Bill Rate plus 4.46%, multiplied by $25.00. If the Bank determines that, after giving effect to any election notices received, there would be less than 1,000,000 Series 28 preferred shares issued and outstanding on the applicable Series 28 conversion date, all of the issued and outstanding Series 28 preferred shares will automatically be converted on such Series 28 conversion date into an equal number of Series 29 preferred shares. With regulatory approval, Series 28 preferred shares may be redeemed by the Bank on April 26, 2014, and, for Series 29 preferred shares, if applicable, on April 26, 2019 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends. On all other dates beginning April 26, 2014, Series 29 preferred shares are redeemable at $25.00 per share plus a redemption premium of $0.50 per share.

(m) As at October 31, 2009, 16,996,830 common shares have been reserved for future issue under the terms of the Shareholder Dividend and Share Purchase Plan.

(n) In May 2008, the Bank initiated a normal course issuer bid to purchase up to 20 million of the Bank's common shares. This represented approximately 2 per cent of the Bank's outstanding common shares. The bid expired on January 11, 2009. During the year ended October 31, 2009, no shares (2008 — 875,000; 2007 — 12 million shares) were purchased (2008 — $45.61; 2007 — $52.21).

Restrictions on dividend payments

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

In the event that applicable cash distributions on any of the Scotiabank Trust Securities [refer to Note 13 Capital instrument liabilities] are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities.

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

For each of the years presented, the Bank paid all of the non-cumulative preferred share dividends.

15 Capital management

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This capital management process aims to achieve four major objectives: exceed regulatory thresholds and meet longer-term internal capital targets, maintain strong credit ratings, manage capital levels commensurate with the risk profile of the Bank and provide the Bank's shareholders with acceptable returns.

Capital is managed in accordance with the Board-approved Capital Management Policy. Senior executive management develop the capital strategy and oversee the capital management processes of the Bank. The Bank's Finance, Group Treasury and Global Risk Management (GRM) groups are key in implementing the Bank's capital strategy and managing capital. Capital is managed using both regulatory capital measures and internal metrics.

Although the Bank is subject to several capital regulations in the different business lines and countries in which the Bank operates, capital adequacy is managed on a consolidated Bank basis. The Bank also takes measures to ensure its subsidiaries meet or exceed local regulatory capital requirements. The primary regulator of its consolidated capital adequacy is the Office of the Superintendent of Financial Institutions Canada (OSFI). The capital adequacy regulations in Canada are largely consistent with international standards set by the Bank for International Settlements.

Effective November 1, 2007, regulatory capital ratios are determined in accordance with the revised capital framework, based on the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, commonly known as Basel II.

Under this framework there are two main methods for computing credit risk: the standardized approach, which uses prescribed risk weights; and internal ratings-based approaches, which allow the use of a bank's internal models to calculate some, or all, of the key inputs into the regulatory capital calculation. Users of the Advanced Internal Ratings Based Approach (AIRB) are required to have sophisticated risk management systems for the calculations of credit risk regulatory capital. Once banks demonstrate full compliance with the AIRB requirements, and OSFI has approved its use, they may proceed to apply the AIRB approach in computing capital requirements.

The Bank uses AIRB for material Canadian, U.S. and European portfolios effective November 1, 2007. The Bank is targeting the remaining material credit portfolios for application of AIRB between fiscal years 2011 and 2013, and currently uses the standardized approach for these portfolios. The Bank uses both internal models and standardized approaches to calculate market risk capital, and the standardized approach to calculate the operational risk capital requirements.

The Bank's total regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

As at October 31 ($ millions)	2009	2008
Shareholders' equity per Consolidated Balance Sheet	**$ 24,772**	$ 21,642
Components of accumulated other comprehensive income excluded from Tier 1 capital	**(117)**	1,220
Capital Instrument liabilities — trust securities	**3,400**	2,750
Non-controlling Interest in subsidiaries	**554**	502
Goodwill deduction	**(2,908)**	(2,273)
Other capital deductions (1)	**(2,051)**	(578)
Tier 1 capital	**$ 23,650**	$ 23,263
Qualifying subordinated debentures, net of amortization	**5,833**	4,227
Trust subordinated notes	**1,000**	1,000
Other net capital items (2)	**(1,895)**	(643)
Tier 2 capital	**4,938**	4,584
Total regulatory capital	**$ 28,588**	$ 27,847
Total risk weighted assets	**$221,656**	$250,591
Capital ratios		
Tier 1 capital ratio	**10.7%**	9.3%
Total capital ratio	**12.9%**	11.1%
Assets-to-capital multiple	**16.6x**	18.0x

(1) Comprised of 50% of all investments in certain specified corporations and other items.

(2) Comprised of 50% of all investments in certain specified corporations and other items, 100% of investments in insurance entities, offset by eligible allowance for credit losses and net after-tax unrealized gain on available-for-sale equity securities.

The two primary regulatory capital ratios used to assess capital adequacy are Tier 1 and Total capital ratios, which are determined by dividing those capital components by risk-weighted assets. Risk-weighted assets represent the Bank's exposure to credit, market and operational risk and are computed by applying a combination of the Bank's internal credit risk parameters and OSFI prescribed risk weights to on- and off-balance sheet exposures.

The regulatory minimum ratios prescribed by OSFI are 7% for Tier 1 capital and 10% for Total capital. The Bank substantially exceeded these minimum ratio thresholds as at October 31, 2009. OSFI has also prescribed an asset-to-capital leverage multiple; the Bank was in compliance with this threshold as at October 31, 2009.

16 Accumulated other comprehensive income (loss)

The components of accumulated other comprehensive income (loss) as at October 31, 2009 and 2008, and other comprehensive income (loss) for the years then ended are as follows:

Accumulated other comprehensive income (loss)

	2009				2008		
As at and for the year ended October 31 ($ millions)	**Opening balance**	**Transition amount(1)**	**Net change**	**Ending balance**	Opening balance	Net change	Ending balance
Unrealized foreign currency translation gains (losses), net of hedging activities	**$ (2,181)**	**$ —**	**$ (1,736)**	**$ (3,917)(2)**	$ (4,549)	$ 2,368	$ (2,181)(2)
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	**(949)**	**595**	**894**	**540(3)**	639	(1,588)	(949)(3)
Gains (losses) on derivative instruments designated as cash flow hedges	**(466)**	**—**	**43**	**(423)(4)**	53	(519)	(466)(4)
Accumulated other comprehensive income (loss)	**$ (3,596)**	**$ 595**	**$ (799)**	**$ (3,800)**	$ (3,857)	$ 261	$ (3,596)

(1) Refer to Note 1 for impact of new accounting policies adopted in 2009 related to classification and impairment of financial instruments.

(2) Net of cumulative income tax expense of $646 (2008 — expense of $318). As at October 31, 2009, non-derivative instruments designated as net investment hedges amounted to $7,384 (2008 - - $7,630).

(3) Net of cumulative income tax expense of $288 (2008 — benefit of $371).

(4) Net of cumulative income tax benefit of $174 (2008 — benefit of $218). The reclassification from accumulated other comprehensive income to earnings over the next 12 months as a result of outstanding cash flow hedges is expected to be a net after tax loss of approximately $211 (2008 — net after tax loss of $204). As at October 31, 2009, the maximum length of cash flow hedges outstanding was less than 10 years (2008 — 10 years).

Other comprehensive income (loss)

The following table summarizes the changes in the components of other comprehensive income (loss).

For the year ended October 31 ($ millions)	2009	2008	2007
Net change in unrealized foreign currency translation losses			
Net unrealized foreign currency translation gains (losses) (1)	**$ (2,410)**	$ 4,206	$ (2,916)
Net gains (losses) on hedges of net investments in self-sustaining foreign operations (2)	**674**	(1,838)	688
	(1,736)	2,368	(2,228)
Net change in unrealized gains (losses) on available-for-sale securities			
Net unrealized gains (losses) on available-for-sale securities (3)	**872**	(1,447)	46
Reclassification of net (gains) losses to net income (4)	**22**	(141)	(113)
	894	(1,588)	(67)
Net change in gains (losses) on derivative instruments designated as cash flow hedges			
Net gains (losses) on derivative instruments designated as cash flow hedges (5)	**(112)**	179	(770)
Reclassification of net (gains) losses to net income (6)	**155**	(698)	846
	43	(519)	76
Other comprehensive income (loss)	**$ (799)**	$ 261	$ (2,219)

(1) Net of income tax expense of nil.

(2) Net of income tax expense of $328 (2008 — benefit of $109; 2007 — expense of $427).

(3) Net of income tax expense of $277 (2008 — benefit of $657; 2007 — expense of $20).

(4) Net of income tax benefit of $59 (2008 — expense of $52; 2007 — expense of $64).

(5) Net of income tax benefit of $23 (2008 — expense of $79; 2007 — benefit of $387).

(6) Net of income tax benefit of $67 (2008 — expense of $322; 2007 — benefit of $425).

17 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 SARs and thereby receive the intrinsic value of the stock option in cash. In addition, in fiscal 2003, Tandem SARs were retroactively attached to the fiscal 2002 employee stock options. All other terms and conditions relating to these 2002 stock options remained unchanged. These 2002 stock options were out of the money at the date of attachment. As a result, there was no impact on the Bank's stock-based compensation expense on the date of retroactive attachment of the Tandem SARs.

Options vest evenly over a four-year period and are exercisable no later than 10 years after the date of the grant. In the event that the expiry date falls within an insider trading blackout period, the expiry date will be extended for 10 business days after the end of the blackout period. Outstanding options expire on dates ranging from March 3, 2010 to December 5, 2018. As approved by the shareholders, a total of 114 million common shares have been reserved for issuance under this plan of which 76.3 million common shares have been issued as a result of the exercise of options and 22.9 million common shares are committed under outstanding options, leaving 14.8 million common shares available for issuance as options.

In 2001, a Directors' Stock Option Plan was approved by the shareholders. A total of 800,000 common shares have been reserved for issuance to non-officer directors under this plan. As of November 1, 2002, director stock options are expensed using a fair-value-based method. Currently, 140,000 (2008 — 144,000; 2007 — 164,000) options are outstanding at a weighted average exercise price of $23.00 (2008 — $23.04; 2007 — $23.09). In fiscal 2009, 4,000 of these options (2008 - 20,000; 2007 — 10,000) were exercised at a weighted average exercise price of $24.40 (2008 - $23.48; 2007 — $24.51). These options expire between March 9, 2011 and December 6, 2012. Commencing in fiscal 2004, the Bank ceased granting stock options to these directors.

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

	2009		2008		2007	
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	**22,979**	**$ 31.32**	27,721	$ 26.81	31,839	$ 23.87
Granted	**4,427**	**33.89**	2,217	52.56	2,094	52.01
Exercised	**(3,647)**	**18.56**	(6,384)	19.12	(5,475)	19.29
Forfeited/cancelled	**(524)**	**32.16**	(231)	37.24	(207)	28.54
Exercise of Tandem SARs	**(346)**	**26.80**	(344)	27.45	(530)	26.80
Outstanding at end of year (1)	**22,889**	**$ 33.90**	22,979	$ 31.32	27,721	$ 26.81
Exercisable at end of year	**15,404**	**$ 30.40**	17,855	$ 25.98	22,629	$ 22.62
Available for grant	**14,808**		18,366		20,008	

As at October 31, 2009	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of stock options (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price
$14.18 to $21.03	3,802	1.06	$ 19.76	3,802	$ 19.76
$24.40 to $27.44	5,328	2.48	$ 24.60	5,328	$ 24.60
$31.45 to $39.00	7,751	7.12	$ 34.49	3,348	$ 35.27
$45.93 to $54.00	6,008	7.16	$ 50.32	2,926	$ 49.22
	22,889	5.04	$ 33.90	15,404	$ 30.40

(1) Included are 19,086,780 (2008 — 16,293,077; 2007 — 16,024,561) options with Tandem SAR features.

(b) Employee share ownership plans

Qualifying employees can generally 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 2009, the Bank's contributions totalled $30 million (2008 – $28 million; 2007 – $27 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 2009, an aggregate expense of $79 million (2008 – $89 million expense; 2007 – $133 million expense) was recorded in salaries and employee benefits in the Consolidated Statement of Income for changes in the amount of the Bank's liability for these units. This expense was net of gains arising from securities and derivatives used to manage the volatility of stock-based compensation of $154 million (2008 – losses of $328 million; 2007 – gains of $99 million). Details of these plans are as follows:

Stock Appreciation Rights (SARs), including Tandem SARs

The SARs include Tandem SARs, as described above, as well as stand-alone SARs which are granted instead of stock options to selected employees in countries where local laws may restrict the Bank from issuing shares. SARs have vesting and exercise terms and conditions similar to the employee stock options. The cost of SARs is recognized on a graded vesting basis except where the employee is eligible to retire prior to the vesting date, in which case the cost is recognized between the grant date and the date the employee is eligible to retire. When a SAR is exercised, the Bank pays the appreciation amount in cash equal to the rise in the market price of the Bank's common shares since the grant date. During fiscal 2009, 4,938,692 SARs were granted (2008 – 2,445,768; 2007 – 2,336,394) and as at October 31, 2009, 23,467,755 SARs were outstanding (2008 – 21,122,574; 2007 – 21,810,096), of which 21,537,430 SARs were vested (2008 – 19,804,585; 2007 – 20,558,130).

Deferred Stock Unit Plan (DSU)

Under the DSU Plan, senior executives may elect to receive all or a portion of their cash bonus under the Management Incentive Plan (which is expensed for the year awarded in salaries and employee benefits in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only when an executive ceases to be a Bank employee and must be redeemed by December 31 of the year following that event. As at October 31, 2009, there were 1,591,426 units outstanding (2008 – 1,595,619; 2007 – 1,571,110).

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, 2009, there were 324,066 units outstanding (2008 – 258,115; 2007 – 216,335).

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, 2009, there were 1,983,701 units (2008 – 1,794,695; 2007 – 1,770,405) awarded and outstanding of which 1,465,999 were vested.

Performance Share Unit Plan (PSU)

Eligible executives receive an award of performance share units that vest at the end of three years. A portion of the PSU awards are subject to performance criteria measured over a three-year period. The three-year performance measures include return on equity compared to target and total shareholder return relative to a comparator group selected prior to the granting of the award. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. This expense varies based on performance compared to the performance measures. Upon vesting, the units are paid, in cash, to the employee. As at October 31, 2009, there were 4,062,895 units (2008 – 3,348,796; 2007 – 3,477,266) awarded and outstanding [including 2,345,134 (2008 – 1,305,913; 2007 – 1,155,145) subject to performance criteria] of which 3,024,518 were vested.

Scotia Capital Deferred Payment Plan

Under the Scotia Capital Incentive Plan, a portion of the bonus awarded to certain employees (which is accrued and expensed in the year to which it relates) is allocated in the form of DPP units, with the remainder paid out in cash. These units are subsequently paid, in cash, to qualifying employees over each of the following three years. Other eligible employees may be allocated PSUs or stock options/SARs (which are expensed as described above) instead of DPP units.

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.

18 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)	2009	2008	2007
Provision for income taxes in the Consolidated Statement of Income:			
Current income taxes:			
Domestic:			
Federal	**$ (155)**	$ 160	$ 283
Provincial	**91**	210	236
Foreign	**1,035**	688	650
	971	1,058	1,169
Future income taxes:			
Domestic:			
Federal	**85**	(311)	(134)
Provincial	**37**	(203)	(55)
Foreign	**40**	147	83
	162	(367)	(106)
Total provision for income taxes in the Consolidated Statement of Income	**$ 1,133**	$ 691	$ 1,063
Provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity:			
Reported in Other Comprehensive Income	**708**	(1,062)	421
Cumulative effect of adopting new accounting policy	**323**	—	338
Share issuance costs	**(6)**	(10)	(9)
Total provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity	**1,025**	(1,072)	750
Total provision for (recovery) of income taxes	**$ 2,158**	$ (381)	$ 1,813

(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:

	2009		2008		2007	
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	**$ 1,516**	**31.6%**	$ 1,289	32.6%	$ 1,815	34.7%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries and foreign branches	**(325)**	**(6.8)**	(370)	(9.4)	(467)	(8.9)
Tax-exempt income from securities	**(168)**	**(3.5)**	(278)	(7.0)	(313)	(6.0)
Future income tax effect of substantively enacted tax rate changes	**120**	**2.5**	61	1.5	41	0.8
Other, net	**(10)**	**(0.2)**	(11)	(0.2)	(13)	(0.3)
Total income taxes and effective tax rate	**$ 1,133**	**23.6%**	$ 691	17.5%	$ 1,063	20.3%

(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)	2009	2008
Loss carryforwards(1)	**$ 1,323**	$ 1,053
Allowance for credit losses(2)	**973**	912
Deferred compensation	**266**	220
Deferred income	**218**	171
Loss on disposal of subsidiary operations	**77**	79
Premises and equipment	**(115)**	(114)
Pension fund	**(313)**	(277)
Securities	**(493)**	241
Other	**304**	251
Net future income taxes(3)	**$ 2,240**	$ 2,536

(1) Includes a gross future tax asset of $376 as at October 31, 2009 (2008 – $196) relating to subsidiaries' unused income tax losses. This future tax asset has been reduced by a valuation allowance of $3 (2008 – $10), resulting in a net future tax asset of $373 (2008 – $186).

(2) As at October 31, 2009, the future income tax asset related to the allowance for credit losses has been reduced by a valuation allowance of $313 (2008 – $241) relating to a subsidiary's unused tax deductions arising from previous years' allowance for credit losses.

(3) Net future income taxes of $2,240 (2008 – $2,536) are represented by future income tax assets of $2,577 (2008 – $2,800), net of future income tax liabilities of $337 (2008 – $264).

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, 2009, are estimated to be $820 million (October 31, 2008 – $788 million).

19 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)	**2009**	2008	2007	**2009**	2008	2007
Change in benefit obligation						
Benefit obligation at beginning of year	**$ 4,414**	$ 4,618	$ 4,588	**$ 1,040**	$ 1,047	$ 1,075
Cost of benefits earned in the year	**124**	133	128	**39**	40	36
Interest cost on benefit obligation	**298**	274	264	**71**	66	62
Employee contributions	**13**	11	11	**—**	—	—
Benefits paid	**(278)**	(271)	(235)	**(53)**	(50)	(49)
Actuarial loss (gain)	**(47)**	(441)	5	**(21)**	(92)	(1)
Non-routine events(2)	**(61)**	24	(50)	**—**	(4)	(29)
Foreign exchange	**(96)**	66	(93)	**(38)**	33	(47)
Benefit obligation at end of year (4)	**$ 4,367**	$ 4,414	$ 4,618	**$ 1,038**	$ 1,040	$ 1,047
Change in fair value of assets						
Fair value of assets at beginning of year	**$ 5,537**	$ 5,733	$ 5,390	**$ 256**	$ 237	$ 221
Actual return on assets	**(348)**	(105)	601	**4**	3	30
Employer contributions	**141**	62	186	**60**	56	62
Employee contributions	**13**	11	11	**—**	—	—
Benefits paid	**(278)**	(271)	(235)	**(53)**	(50)	(49)
Non-routine events(2)	**(90)**	—	(73)	**—**	—	(5)
Foreign exchange	**(145)**	107	(147)	**(22)**	10	(22)
Fair value of assets at end of year (3)(4)	**$ 4,830**	$ 5,537	$ 5,733	**$ 245**	$ 256	$ 237
Funded status						
Excess (deficit) of fair value of assets over benefit obligation at end of year(4)	**$ 463**	$ 1,123	$ 1,115	**$ (793)**	$ (784)	$ (810)
Unrecognized net actuarial loss	**1,003**	318	274	**168**	186	271
Unrecognized past service costs	**96**	112	96	**(4)**	(6)	(4)
Unrecognized transitional obligation (asset)	**(216)**	(276)	(308)	**141**	161	178
Valuation allowance	**(129)**	(179)	(169)	**—**	—	—
Employer contributions after measurement date	**20**	7	36	**11**	11	10
Net prepaid (accrued) benefit expense at end of year	**$ 1,237**	$ 1,105	$ 1,044	**$ (477)**	$ (432)	$ (355)
Recorded in:						
Other assets in the Bank's Consolidated Balance Sheet	**$ 1,463**	$ 1,320	$ 1,243	**$ 23**	$ 17	$ 13
Other liabilities in the Bank's Consolidated Balance Sheet	**(226)**	(215)	(199)	**(500)**	(449)	(368)
Net prepaid (accrued) benefit expense at end of year	**$ 1,237**	$ 1,105	$ 1,044	**$ (477)**	$ (432)	$ (355)
Annual benefit expense						
Cost of benefits earned in the year	**$ 124**	$ 133	$ 128	**$ 39**	$ 40	$ 36
Interest cost on benefit obligation	**298**	274	264	**71**	66	62
Actual return on assets	**348**	105	(601)	**(4)**	(3)	(30)
Actuarial loss (gain) on benefit obligation	**(47)**	(441)	5	**(21)**	(92)	(1)
Amount of curtailment (gain) loss recognized	**—**	(1)	3	**—**	—	(8)
Amount of settlement (gain) loss recognized	**12**	—	32	**—**	—	(1)
Special termination benefits(2)	**31**	—	—	**—**	—	—
Non-routine events(2)	**—**	24	24	**—**	(4)	(11)
Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs	**766**	94	(145)	**85**	7	47
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	**(753)**	(501)	227	**(17)**	(15)	15
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation	**49**	444	13	**28**	104	15

Difference between amortization of non-routine events and actual non-routine events	**10**	(13)	(15)	**—**	4	11
Amortization to recognize transitional obligation (asset)	**(39)**	(39)	(42)	**18**	18	21
	(733)	(109)	183	**29**	111	62
Change in valuation allowance provided against prepaid benefit expense	**(50)**	10	(26)	**—**	—	—
Benefit expense (income) recognized, excluding defined contribution benefit expense	**(17)**	(5)	12	**114**	118	109
Defined contribution benefit expense recognized	**5**	6	5	**—**	—	—
Total benefit expense recognized	**$ (12)**	$ 1	$ 17	**$ 114**	$ 118	$ 109

(1) Other plans operated by certain subsidiaries of the Bank are not considered material and are not included in these disclosures.

(2) Non-routine events include plan amendments, acquisitions, divestitures, transfers, etc. The special termination benefits are also considered a non-routine event associated with additional benefits paid upon the termination of a pension plan.

(3) The fair value of pension plan assets invested in securities of the Bank totalled $426 (2008 – $511; 2007 – $565).

(4) The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefits plan.

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

	Pension plans			Other benefit plans		
For the year ended October 31 ($ millions)	**2009**	2008	2007	**2009**	2008	2007
Benefit obligation(1)	**$ 774**	$ 659	$ 613	**$ 890**	$ 1,040	$ 1,047
Fair value of assets	**446**	354	326	**96**	256	237
Deficit of fair value of assets over benefit obligation	**$ (328)**	$ (305)	$ (287)	**$ (794)**	$ (784)	$ (810)

(1) Includes the benefit obligation of $258 at the end of 2009 (2008 – $264; 2007 – $281) 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	**2009**	2008	2007	**2009**	2008	2007
To determine benefit obligation at end of year						
Discount rate	**7.05%**	6.70%	5.85%	**6.90%**	6.90%	6.10%
Rate of increase in future compensation(2)	**3.90%**	3.90%	3.75%	**1.30%**	1.50%	1.40%
To determine benefit expense (income) for the year						
Discount rate	**6.70%**	5.85%	5.75%	**6.90%**	6.10%	6.00%
Assumed long-term rate of return on assets	**7.25%**	7.25%	7.25%	**8.70%**	7.40%	7.10%
Rate of increase in future compensation(2)	**3.90%**	3.75%	3.50%	**1.50%**	1.40%	1.35%
Health care cost trend rates at end of year						
Initial rate	**n/a**	n/a	n/a	**7.00%**	7.20%	7.40%
Ultimate rate	**n/a**	n/a	n/a	**4.70%**	5.00%	4.70%
Year ultimate rate reached	**n/a**	n/a	n/a	**2029**	2018	2014

(1) Includes international plans which generally have higher rates than Canadian plans. The discount rate used to determine the 2009 benefit expense for all Canadian pension and other benefit plans was 6.4% (2008 – 5.6%; 2007 – 5.5%). The discount rate used for the 2009 end of year benefit obligation was 6.8% for all Canadian pension and other benefit plans (2008 – 6.4%; 2007 – 5.6%) and the assumed long-term rate of return on assets for all Canadian pension plans was 7.0% (2008 – 7.25%; 2007 – 7.25%).

(2) The weighted-average rates of increase in future compensation shown for other benefit plans do not include Canadian flexible post-retirement benefits plans established in fiscal 2005, as they are not impacted by future compensation increases.

Sensitivity analysis

	Pension plans		Other benefit plans	
For the year ended October 31, 2009 ($ millions)	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Impact of 1% decrease in discount rate	$ 636	$ 50	$ 153	$ 13
Impact of 1% decrease in assumed long-term rate of return on assets	n/a	51	n/a	2
Impact of 0.25% increase in rate of increase in future compensation	41	7	1	—
Impact of 1% increase in health care cost trend rate	n/a	n/a	121	20
Impact of 1% decrease in health care cost trend rate	n/a	n/a	(99)	(16)

Assets

The Bank's principal pension plans' assets are generally invested with the long-term objective of maximizing overall expected returns, at an acceptable level of risk. A key factor in managing long-term investment risk is asset mix. Investing the pension assets in different asset classes and geographic regions helps to spread risk and to minimize the impact of declines in any single asset class, particular region or type of investment. Within each asset class, investment management firms are hired and assigned specific mandates. To enhance diversification, several investment managers – including related-party managers – are typically used for each asset class.

Pension plan asset mix guidelines are set for the long term, and are documented in each plan's investment policy. Legislation places certain restrictions on asset mix – for example, there are usually limits on concentration in any one investment. Other concentration and quality limits are also set forth in the investment policies. The use of derivatives is generally prohibited without specific authorization; currently, the main use of derivatives is to hedge currency fluctuations associated with US equity holdings in the Canadian pension funds. Asset mix guidelines are reviewed at least once each year, and adjusted, where appropriate, based on market conditions and opportunities; however, large asset class shifts are rare, and typically reflect a change in the pension plan's situation (e.g. a plan termination). Actual asset mix is reviewed regularly, and rebalancing – as needed – back to the target asset mix is considered, generally, twice each year.

The Bank's other benefit plans are generally not funded; the relatively small assets for these other benefit plans are mostly related to programs in Mexico.

The Bank's principal plans' weighted-average actual and target asset allocations at the measurement date, by asset category, are as follows:

	Pension plans				Other benefit plans			
Asset category %	**Target 2009**	**Actual 2009**	Actual 2008	Actual 2007	**Target 2009**	**Actual 2009**	Actual 2008	Actual 2007
Equity investments	**64%**	**63%**	64%	65%	**37%**	**36%**	35%	24%
Fixed income investments	**35%**	**34%**	35%	34%	**63%**	**64%**	65%	76%
Other	**1%**	**3%**	1%	1%	**—**	**—**	—	—
Total	**100%**	**100%**	100%	100%	**100%**	**100%**	100%	100%

Actuarial valuations

Actuarial valuations for the Bank's principal pension plans are generally required every three years. The most recent actuarial valuation of the Bank's main pension plan was conducted as of November 1, 2008, and the date of the next required valuation is November 1, 2011 (this plan accounts for 71% of principal pension plans' benefit obligation and 74% of principal pension plans' fair value of assets). Actuarial valuations for the Bank's principal other benefit plans are generally carried out every two to three years, with the most recent valuation completed as of July 31, 2008 for the other post-retirement benefits and July 31, 2009 for post-employment benefits. The next actuarial valuations are currently scheduled in fiscal year 2011 for post-retirement benefits and fiscal year 2012 for post-employment benefits.

Cash payments and contributions

In fiscal year 2009, the Bank made cash payments of $154 million (2008 – $33 million; 2007 – $216 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 $60 million (2008 – $57 million; 2007 – $62 million) during the year to the principal other benefit plans, primarily in respect of benefit payments to beneficiaries under these plans. The Bank also made cash payments of $5 million (2008 – $6 million; 2007 – $5 million) to the principal defined contribution pension plans.

20 Earnings per common share

For the year ended October 31 ($ millions)	2009	2008	2007
Basic earnings per common share			
Net income	**$ 3,547**	$ 3,140	$ 4,045
Preferred dividends paid	**186**	107	51
Net income available to common shareholders	**$ 3,361**	$ 3,033	$ 3,994
Average number of common shares outstanding (millions)	**1,013**	987	989
Basic earnings per common share (1)	**$ 3.32**	$ 3.07	$ 4.04
Diluted earnings per common share			
Net income available to common shareholders	**$ 3,361**	$ 3,033	$ 3,994
Average number of common shares outstanding (millions)	**1,013**	987	989
Stock options potentially exercisable (millions) (2)	**3**	6	8
Average number of diluted common shares outstanding (millions) (3)	**1,016**	993	997
Diluted earnings per common share (1)	**$ 3.31**	$ 3.05	$ 4.01

(1) Earnings per share calculations are based on full dollar and share amounts.

(2) Reflects the potential dilutive effect of stock options granted under the Bank's Stock Option Plans as determined under the treasury stock method.

Excludes options with Tandem SAR features as these options are expensed and recorded as liabilities. All other stock options are included in the computation.

(3) Certain convertible instruments have not been included in the calculation since the Bank has the right to redeem them for cash prior to conversion date.

21 Related party transactions

In the ordinary course of business, the Bank provides normal banking services and enters into transactions with 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 17 – Stock-based compensation for further details of these plans.

22 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: Canadian Banking (formerly known as Domestic Banking), International Banking, and Scotia Capital.

Canadian Banking provides a comprehensive array of retail and commercial banking services through branch and electronic delivery channels, to individuals and small to medium-sized businesses in Canada. The retail services include consumer and mortgage lending, credit and debit card services, savings, chequing and retirement products, 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 provides retail and commercial banking services through branches, subsidiaries and foreign affiliates. The products, services and channels offered are generally the same as those in Canadian Banking.

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.

Historically, assets and liabilities are transfer-priced at short-term wholesale market rates. Commencing November 1, 2008, the Bank refined its transfer pricing to include a liquidity premium charge in the cost of funds allocated to the business segments. The net impact of this change was to reduce the net interest income of the three major segments and reduce the net interest expense of the Other segment.

For the year ended October 31, 2009 ($ millions)

Taxable equivalent basis	Canadian Banking	International Banking	Scotia Capital	Other[1]	**Total**
Net interest income[2]	$ 4,785	$ 3,773	$ 1,427	$ (1,657)	**$ 8,328**
Provision for credit losses	702	577	338	127	**1,744**
Other income	2,279	1,480	2,138	232	**6,129**
Net interest and other income	6,362	4,676	3,227	(1,552)	**12,713**
Depreciation and amortization	168	127	32	3	**330**
Other non-interest expenses	3,589	2,833	1,040	127	**7,589**
Income before the undernoted:	2,605	1,716	2,155	(1,682)	**4,794**
Provision for income taxes	754	287	704	(612)	**1,133**
Non-controlling interest in net income of subsidiaries	—	114	—	—	**114**
Net income	$ 1,851	$ 1,315	$ 1,451	$ (1,070)	**$ 3,547**
Preferred dividends paid					**186**
Net income available to common shareholders[3]					**$ 3,361**
Total average assets ($ billions)	$ 192	$ 90	$ 183	$ 48	**$ 513**

For the year ended October 31, 2008 ($ millions)

Taxable equivalent basis	Canadian Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 4,324	$ 3,315	$ 1,120	$ (1,185)	$ 7,574
Provision for credit losses	399	236	(5)	—	630
Other income	2,174	1,282	707	139	4,302
Net interest and other income	6,099	4,361	1,832	(1,046)	11,246
Depreciation and amortization	159	104	25	3	291
Other non-interest expenses	3,473	2,530	912	90	7,005
Income before the undernoted:	2,467	1,727	895	(1,139)	3,950
Provision for income taxes	743	422	108	(582)	691
Non-controlling interest in net income of subsidiaries	—	119	—	—	119
Net income	$ 1,724	$ 1,186	$ 787	$ (557)	$ 3,140
Preferred dividends paid					107
Net income available to common shareholders[3]					$ 3,033
Total average assets ($ billions)	$ 175	$ 79	$ 164	$ 37	$ 455

For the year ended October 31, 2007 ($ millions)

Taxable equivalent basis	Canadian Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income	$ 3,855	$ 2,762	$ 1,160	$ (679)	$ 7,098
Provision for credit losses	295	101	(101)	(25)	270
Other income	2,248	1,227	1,290	627	5,392
Net interest and other income	5,808	3,888	2,551	(27)	12,220
Depreciation and amortization	158	84	23	2	267
Other non-interest expenses	3,401	2,195	990	141	6,727
Income before the undernoted:	2,249	1,609	1,538	(170)	5,226
Provision for income taxes	685	241	413	(276)	1,063
Non-controlling interest in net income of subsidiaries	—	118	—	—	118
Net income	$ 1,564	$ 1,250	$ 1,125	$ 106	$ 4,045
Preferred dividends paid					51
Net income available to common shareholders[3]					$ 3,994
Total average assets ($ billions)	$ 154	$ 66	$ 152	$ 31	$ 403

(1) Includes revenues from all other smaller operating segments of ($638) in 2009 (2008 – ($224); 2007 – $594), and net income/(loss) of ($467) in 2009 (2008 – ($200); 2007 – $316). 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 $288 in 2009 (2008 – $416; 2007 – $531), changes in the general allowance, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

(2) Commencing November 1, 2008, the impact of including a liquidity premium charge in the cost of funds allocated to the business segments was a reduction in the net interest income of the three major segments of $331, which was offset by a reduction in the net interest expense of the Other segment. Prior periods have not been restated.

(3) Commencing in 2008, the reporting of segment profitability has been changed from net income available to common shareholders to net income. Prior periods have been restated.

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, 2009 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 4,552	$ 641	$ 821	$ 3,331	**$ 9,345**
Provision for credit losses	744	296	185	392	**1,617**
Other income	3,211	452	424	1,525	**5,612**
Non-interest expenses	4,529	255	791	2,317	**7,892**
Provision for income taxes	513	222	69	380	**1,184**
Non-controlling interest in net income of subsidiaries	—	—	6	108	**114**
	$ 1,977	$ 320	$ 194	$ 1,659	**$ 4,150**
Preferred dividends paid					**174**
Corporate adjustments					**(615)**
Net income available to common shareholders					**$ 3,361**
Total average assets ($ billions)	$ 335	$ 44	$ 19	$ 109	**$ 507**
Corporate adjustments					**6**
Total average assets, including corporate adjustments					**$ 513**

For the year ended October 31, 2008 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 4,471	$ 236	$ 903	$ 2,627	$ 8,237
Provision for credit losses	388	16	141	85	630
Other income	2,614	(202)	478	1,137	4,027
Non-interest expenses	4,315	200	793	1,982	7,290
Provision for income taxes	344	(98)	122	369	737
Non-controlling interest in net income of subsidiaries	—	—	9	110	119
	$ 2,038	$ (84)	$ 316	$ 1,218	$ 3,488
Preferred dividends paid					97
Corporate adjustments					(358)
Net income available to common shareholders					$ 3,033
Total average assets ($ billions)	$ 293	$ 30	$ 20	$ 102	$ 445
Corporate adjustments					10
Total average assets, including corporate adjustments					$ 455

For the year ended October 31, 2007 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 4,294	$ 152	$ 887	$ 2,012	$ 7,345
Provision for credit losses	295	(91)	68	23	295
Other income	3,084	698	478	930	5,190
Non-interest expenses	4,285	224	723	1,712	6,944
Provision for income taxes	474	215	51	225	965
Non-controlling interest in net income of subsidiaries	—	—	12	106	118
	$ 2,324	$ 502	$ 511	$ 876	$ 4,213
Preferred dividends paid					46
Corporate adjustments					(173)
Net income available to common shareholders					$ 3,994
Total average assets ($ billions)	$ 265	$ 29	$ 21	$ 81	$ 396
Corporate adjustments					7
Total average assets, including corporate adjustments					$ 403

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

23 Guarantees, commitments and contingent liabilities

(a) Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, index or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform in relation to its indebtedness. The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

As at October 31 ($ millions)	2009 Maximum potential amount of future payments[1]	2008 Maximum potential amount of future payments[1]
Standby letters of credit and letters of guarantee	**$ 21,904**	$ 27,808
Liquidity facilities	**9,797**	18,311
Derivative instruments	**1,465**	1,738
Securitizations	**170**	170
Indemnifications	**552**	565

(1) The maximum potential amount of future payments represents those guarantees that can be quantified and excludes other guarantees that cannot be quantified. As many of these guarantees will not be drawn upon and the maximum potential amount of future payments listed above does not consider the possibility of recovery under recourse or collateral provisions, the above amounts are not indicative of future cash requirements, credit risk, or the Bank's expected losses from these arrangements.

(i) Standby letters of credit and letters of guarantee

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of these guarantees does not exceed four years. The types and amounts of collateral security held by the Bank for these guarantees is generally the same as for loans. As at October 31, 2009, $5 million (2008 – $8 million) was included in other liabilities in the Consolidated Balance Sheet with respect to these guarantees.

(ii) Liquidity facilities

The Bank provides backstop liquidity facilities to asset-backed commercial paper conduits, administered by the Bank and by third parties. These facilities provide an alternative source of financing, in the event market disruption prevents the conduit from issuing commercial paper or, in some cases, when certain specified conditions or performance measures are not met. Generally, these facilities have a term of up to one year. Of the $9,797 million (2008 – $18,311 million) in backstop liquidity facilities provided to asset-backed commercial paper conduits, 95% (2008 – 93%) is committed liquidity for the Bank's sponsored conduits.

The Bank provides partial credit enhancements in the form of financial standby letters of credit to commercial paper conduits, administered by the Bank. As at October 31, 2009, these credit enhancements amounted to $760 million (2008 – $1,269 million) and are considered as liquidity facilities in the above table. The credit enhancements are provided to ensure a high investment grade credit rating is achieved for notes issued by the conduits. Generally, these facilities have a term of up to one year. No amounts have been recorded in the Consolidated Balance Sheet with respect to these facilities.

(iii) Derivative instruments

The Bank enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a loan or bond, if a default or other defined triggering event occurs. The Bank also enters into written option contracts under which a counterparty is granted the right, but not the obligation, to sell a specified quantity of a financial instrument at a pre-determined price on or before a set date. These written option contracts are normally referenced to interest rates, foreign exchange rates or equity prices. Typically, a corporate or government entity is the counterparty to the written credit derivative and option contracts that meet the characteristics of guarantees described above. The maximum potential amount of future payments disclosed in the table above relates to written credit derivatives, puts and floors. However, these amounts exclude certain derivatives contracts, such as written caps, as the nature of these contracts prevents quantification of the maximum potential amount of future payments. As at October 31, 2009, $103 million (2008 – $405 million) was included in derivative instrument liabilities in the Consolidated Balance Sheet with respect to these derivative instruments.

(iv) Securitizations

The Bank's revolving securitization agreements may require payments to be made to the trusts under certain limited circumstances. These guarantees will be outstanding for the remaining term to maturity of the trusts' securitization notes, which is on average four months. These payments are contingent on failure to maintain a minimum pool size due to the occurrence of certain limited predefined events.

(v) Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, service agreements, trademark licensing agreements, escrow arrangements, sales of assets or businesses, outsourcing agreements, leasing arrangements, clearing system arrangements, securities lending agency agreements and structured transactions. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation

claims by third parties. These indemnification provisions will vary based upon the contract. In certain types of arrangements, the Bank may in turn obtain indemnifications from other parties to the arrangement or may have access to collateral under recourse provisions. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the Bank cannot estimate in all cases the maximum potential future amount that may be payable, nor the amount of collateral or assets available under recourse provisions that would mitigate any such payments. Historically, the Bank has not made any significant payments under these indemnities. As at October 31, 2009, $6 million (2008 – $7 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

(b) Other indirect commitments

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

- Commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed;
- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions;
- Securities lending transactions under which the Bank, acting as principal or agent, agrees to lend securities to a borrower.

  The borrower must fully collateralize the security loan at all times. The market value of the collateral is monitored relative to the amounts due under the agreements, and where necessary, additional collateral is obtained; and
- Security purchase commitments which require the Bank to fund future investments.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

The table below provides a detailed breakdown of the Bank's other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract which are not reflected on the Consolidated Balance Sheet.

As at October 31 ($ millions)	2009(1)	2008(1)
Commercial letters of credit	**$ 1,182**	$ 1,868
Commitments to extend credit(2)		
Original term to maturity of one year or less	**48,196**	68,736
Original term to maturity of more than one year	**56,262**	61,497
Securities lending	**10,036**	8,975
Security purchase and other commitments	**1,499**	1,986
Total	**$117,175**	$143,062

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

(2) Includes liquidity facilities, net of credit enhancements.

(c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2009, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year ($ millions)	
2010	$197
2011	167
2012	135
2013	104
2014	72
2015 and thereafter	183
Total	$858

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $243 million (2008 – $217 million; 2007 – $197 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)	2009	2008
Assets pledged to:		
Bank of Canada(1)	**$ 100**	$ 20
Foreign governments and central banks(1)	**10,295**	12,123
Clearing systems, payment systems and depositories(1)	**1,813**	1,498
Assets pledged in relation to exchange-traded derivative transactions	**443**	284
Assets pledged as collateral related to securities borrowed, and securities lent	**28,153**	22,237
Assets pledged in relation to over-the-counter derivative transactions	**4,686**	7,382
Other	**1,744**	1,764
Total assets pledged	**$ 47,234**	$45,308
Obligations related to securities sold under repurchase agreements	**36,568**	36,506
Total	**$ 83,802**	$81,814

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

(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.

24 Financial instruments – risk management

The Bank's principal business activities result in a balance sheet that consists primarily of financial instruments. In addition, the Bank uses derivative financial instruments for both trading and asset/liability management purposes. The principal financial risks that arise from transacting financial instruments include credit risk, liquidity risk and market risk. The Bank has a comprehensive risk management framework to monitor, evaluate and manage these risks. This risk management framework has four main components, as follows:

- extensive risk management policies define the Bank's risk appetite, set the limits and controls within which the Bank and its subsidiaries can operate, and reflect the requirements of regulatory authorities. These policies are approved by the Bank's Board of Directors, either directly or through the Executive and Risk Committee, (the Board);
- guidelines are developed to clarify risk limits and conditions under which the Bank's risk policies are implemented;
- processes are implemented to identify, evaluate, document, report and control risk. Standards define the breadth and quality of information required to make a decision; and
- compliance with risk policies, limits and guidelines is measured, monitored and reported to ensure consistency against defined goals.

Further details on the fair value of financial instruments and how these amounts were determined are provided in Note 25. Note 27 provides details on the terms and conditions of the Bank's derivative financial instruments including notional amounts, remaining term to maturity, credit risk, and fair values of derivatives used in trading activities and asset/liability management including hedging.

(a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. The Bank's credit risk strategy and credit risk policy are developed by its Global Risk Management (GRM) department and are reviewed and approved by the Board on an annual basis. The credit risk strategy defines target markets and risk tolerances that are developed at an all-Bank level, and then further refined at the business line level. The objectives of the credit risk strategy are to ensure that, for the Bank, including the individual business lines:

- target markets and product offerings are well defined;
- the risk parameters for new underwritings and for the portfolios as a whole are clearly specified; and
- transactions, including origination, syndication, loan sales and hedging, are managed in a manner to ensure the goals for the overall portfolio are met.

The credit risk policy sets out, among other things, the credit risk rating systems and associated parameter estimates, the delegation of authority for granting credit, the calculation of the allowance for credit losses and the authorization of writeoffs. It forms an integral part of enterprise-wide policies and procedures that encompass governance, risk management and control structure.

The Bank's credit risk rating systems are designed to support the determination of key credit risk parameter estimates which measure credit and transaction risk. For non-retail exposures, parameters are associated with each credit facility through the assignment of borrower and transaction ratings. Borrower risk is evaluated using methodologies that are specific to particular industry sectors and/or business lines. The risk associated with facilities of a given borrower is assessed by considering the facilities' structural and collateral-related elements. For retail portfolios, each exposure has been assigned to a particular pool (real estate secured, other retail – term lending, unsecured revolving) and within each pool to a risk grade. This process provides for a meaningful differentiation of risk, and allows for appropriate and consistent estimation of loss characteristics at the pool and risk grade level. Further details on credit risk relating to derivatives are provided in Note 27(c).

(i) Credit risk exposures

Credit risk exposures disclosed below are presented based on Basel II approaches utilized by the Bank. All material portfolios in Canada, US and Europe are treated under the advanced internal ratings based approach (AIRB) and the remaining portfolios including other international portfolios are treated under the Standardized approach. Under the AIRB approach, the Bank uses internal risk parameter estimates, based on historical experience, for probability of default (PD), loss given default (LGD) and exposure at default (EAD), as defined below:

- EAD: Generally represents the expected gross exposure – outstanding amount for on-balance sheet exposure and loan equivalent amount for off-balance sheet exposure.
- PD: Measures the likelihood that a borrower will default within a 1-year time horizon, expressed as a percentage.
- LGD: Measures the severity of loss on a facility in the event of a borrower's default, expressed as a percentage of exposure at default.

Under the standardized approach, credit risk is estimated using the risk weights as prescribed by the Basel II framework either based on credit assessments by external rating agencies or based on the counter-party type for non-retail exposures and product type for retail exposures. Standardized risk weights also takes into account other factors such as specific provisions for defaulted exposures, eligible collateral, and loan-to-value for real estate secured retail exposures.

	2009				2008
	Exposure at default[1]				
As at October 31 ($ millions)	Drawn[2]	Undrawn commitments	Other exposures[3]	Total	Total
By counterparty type					
Non-retail					
AIRB portfolio					
Corporate	$ 53,649	$ 33,320	$ 34,985	**$121,954**	$160,279
Bank	12,329	14,171	21,499	**47,999**	69,472
Sovereign[4]	76,511	6,909	3,250	**86,670**	53,298
	142,489	54,400	59,734	**256,623**	283,049
Standardized portfolio					
Corporate	45,282	3,366	2,106	**50,754**	56,214
Bank	9,301	70	503	**9,874**	9,746
Sovereign	12,252	51	8	**12,311**	12,068
	66,835	3,487	2,617	**72,939**	78,028
Total non-retail	$209,324	$ 57,887	$ 62,351	**$329,562**	$361,077
Retail					
AIRB portfolio					
Real estate secured	$ 89,536	$ 616	$	**$ 90,152**	$ 78,644
Qualifying revolving	13,142	5,594		**18,736**	19,127
Other retail	11,486	65		**11,551**	9,777
	114,164	6,275		**120,439**	107,548
Standardized portfolio					
Real estate secured	13,183	—		**13,183**	23,697
Other retail	11,527	389		**11,916**	13,919
	24,710	389		**25,099**	37,616
Total retail	$138,874	$ 6,664	$	**$145,538**	$145,164
Total	$348,198	$ 64,551	$ 62,351	**$475,100**	$506,241
By geography[5]					
Canada	$210,866	$ 43,719	$ 25,283	**$279,868**	$278,770
United States	39,790	15,172	25,378	**80,340**	89,451
Mexico	11,312	218	849	**12,379**	15,137
Other International					
Europe	20,111	1,798	5,782	**27,691**	39,486
Caribbean	24,304	1,356	2,083	**27,743**	30,788
Latin America (excluding Mexico)	21,790	1,158	1,161	**24,109**	22,653
All Other	20,025	1,130	1,815	**22,970**	29,956
Total	$348,198	$ 64,551	$ 62,351	**$475,100**	$506,241

(1) After credit risk mitigation, Basel II exposures excludes available-for-sale equity securities and other assets.

(2) Includes loans, acceptances, deposits with banks and available-for-sale debt securities.

(3) Not applicable for retail exposures. Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, securitizations, derivatives and repo-style transactions (reverse repurchase agreements, repurchase agreements, securities lending and securities borrowing), net of related collateral.

(4) AIRB drawn and undrawn exposures include government guaranteed mortgages.

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

Balance sheet asset categories cross-referenced to credit risk exposures

The table below provides a mapping of on-balance sheet asset categories that are included in the various Basel II exposure categories as presented in the credit exposure summary table on page 142 of these financial statements. The amounts for Basel II purposes do not include certain assets such as cash, precious metals, available-for-sale equity securities and other assets. Also excluded from Basel II credit exposures are all trading book assets and assets of the Bank's insurance subsidiaries.

	Balance sheet asset exposures				
	Drawn[1]		Other exposures		
As at October 31, 2009 ($ millions)	Non-retail	Retail	Securitization	Repo-style transactions	Derivatives
Deposits with banks	$ 32,895	$	$	$ 3,490	$
Available-for-sale debt securities	33,997[2]	20,864	221		
Residential mortgages	38,060[3]	63,232			
Personal and credit cards loans		54,651	6,257		
Securities purchased under resale agreements				17,774	
Business and government loans	94,789		1,816	6,318	
Customers' liability under acceptances	9,583				
Derivative instruments					25,992
Other assets		127			
Total	$209,324	$138,874	$ 8,294	$ 27,582	$ 25,992
As at October 31, 2008	$208,494	$137,624	$ 9,918	$ 27,805	$ 44,810

(1) Gross of allowances for credit losses for AIRB exposures and net of specific allowances for standardized exposures.

(2) Includes securities held as trading under fair value option.

(3) Includes $37 billion in mortgages guaranteed by Canada Mortgage Housing Corporation.

(ii) Credit quality of non-retail exposures

Credit decisions are made based upon an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include: the borrower's management; the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; and geopolitical risk. Banking units and Global Risk Management also review the credit quality of the credit portfolio across the organization on a regular basis to assess whether economic trends or specific events may affect the performance of the portfolio.

The Bank's non-retail portfolio is well diversified by industry. As at October 31, 2009 and October 31, 2008, a significant portion of the authorized corporate and commercial lending portfolio was internally assessed at a grade that would generally equate to an investment grade rating by external rating agencies.

Internal grades are used to differentiate the risk of default of borrower. The following table cross references the Bank's internal borrower grades with equivalent ratings categories utilized by external rating agencies:

Cross referencing of internal ratings to external ratings

	Equivalent External Ratings	
Internal Grades	Moodys	S&P
Investment grade		
99 – 98	Aaa to Aa1	AAA to AA+
95 – 90	Aa2 to A3	AA to A-
87 – 83	Baa1 to Baa3	BBB+ to BBB-
Non-investment grade		
80 – 75	Ba1 to Ba3	BB+ to BB-
73 – 70	B1 to B3	B+ to B-
Watch List		
65 – 30		
Default		
27 – 21		

Non-retail AIRB portfolio

The credit quality of the non-retail AIRB portfolio, expressed in terms of risk categories of borrower internal grades is shown in the table below:

As at October 31 ($ millions)	2009				2008
	Exposure at default[1]				
Category of internal grades	Drawn	Undrawn commitments	Other exposures[2]	**Total**	Total
Investment grade	$ 72,005	$ 36,933	$ 53,861	**$162,799**	$188,904
Non-investment grade	27,467	10,647	5,037	**43,151**	54,591
Watch list	4,210	565	429	**5,204**	2,736
Default	1,397	168	118	**1,683**	297
Total, excluding residential mortgages	$105,079	$ 48,313	$ 59,445	**$212,837**	$246,528
Government guaranteed residential mortgages[3]	37,410	6,087		**43,497**	36,303
Total	$142,489	$ 54,400	$ 59,445	**$256,334**	$282,831

(1) After credit risk mitigation.

(2) Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, derivatives, securitizations, excluding first loss protection of $289 (October 31, 2008 – $218) and repo-style transactions (reverse repurchase agreements, repurchase agreements and securities lending and borrowing), net of related collateral.

(3) Under Basel II, these exposures are classified as sovereign exposure and included in the non-retail category.

Non-retail standardized portfolio

Non-retail standardized portfolio as at October 31, 2009 comprised of drawn, undrawn and other exposures to corporate, bank and sovereign counterparties amounted to $73 billion (October 31, 2008 – $78 billion). Exposures to most Corporate/Commercial counterparties mainly in the Caribbean and Latin American region, are to non-investment grade counterparties based on the Bank's internal grading systems.

(iii) Credit quality of retail exposures

The Bank's credit underwriting methodology and risk modeling in Canada is customer rather than product focused. Generally, decisions on consumer loans are based on risk ratings, which are generated using predictive scoring models. Individual credit requests are processed by proprietary adjudication software designed to calculate the maximum debt for which a customer qualifies.

The Bank's retail portfolios consist of a number of relatively small loans to a large number of borrowers. The portfolios are distributed across Canada and a wide range of countries. As such, the portfolios inherently have a high degree of diversification.

Retail AIRB portfolio

The data in the table below provides a distribution of the retail AIRB exposure within each PD grade by exposure class:

As at October 31 ($ millions)		2009					2008
		Exposure at default[1]					
		Real estate secured		Qualifying	Other		
Category of (PD) grades	PD range	Mortgages	Line of credit	revolving	retail	Total	Total
Very low	0.0000 - 0.2099%	$ 50,140	$ 15,584	$ 5,444	$ 4,194	**$ 75,362**	$ 74,214
Low	0.2100 - 0.4599%	11,009	994	4,202	2,396	**18,601**	15,174
Medium	0.4600 - 3.1999%	9,977	1,257	7,264	4,250	**22,748**	15,862
High	3.2000 - 17.2899%	738	252	963	344	**2,297**	1,468
Very high	17.2900 - 99.9999%	—	—	690	177	**867**	518
Default	100%	177	24	173	190	**564**	312
Total		$ 72,041	$ 18,111	$ 18,736	$ 11,551	**$120,439**	$107,548

(1) After credit risk mitigation.

Retail standardized portfolio

As at October 31, 2009, the retail standardized portfolio of $25 billion (October 31, 2008 – $38 billion) was comprised of residential mortgages, personal loans, credit cards and lines of credit to individuals, mainly in the Caribbean and Latin American region. Of the total retail standardized portfolio, $13 billion (October 31, 2008 – $24 billion) was represented by mortgages and loans secured by residential real estate, mostly with a loan-to-value ratio of below 80%.

(iv) Collateral

Collateral held

In the normal course of business, to reduce its exposure to counterparty credit risk, the Bank receives collateral on derivative, securities borrowing and lending, and other transactions related to the capital markets. The following are examples of the terms and conditions customary to collateral for these types of transactions:

- The risks and rewards of the pledged assets reside with the pledgor.
- Additional collateral is required when the market value of the transaction exceeds thresholds agreed upon with the pledgor.
- The Bank is normally permitted to sell or repledge the collateral it receives, although this right is specific to each agreement under which the collateral is pledged.
- Upon satisfaction of the obligation, the Bank must return the pledged assets; unless the Bank has the right to sell or repledge the collateral it receives, in which case the Bank must return comparable collateral to the pledgor.

As at October 31, 2009, the approximate market value of collateral accepted that may be sold or repledged by the Bank was $33.3 billion (2008 – $38.3 billion). This collateral is held primarily in connection with reverse repurchase agreements, securities borrowing and lending, and derivative transactions.

Collateral pledged

In the normal course of business, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Note 23(d) details the nature and extent of the Bank's asset pledging activities. Asset pledging transactions are conducted under terms that are common and customary to standard derivative, securities borrowing and lending, and other lending activities. Standard risk management controls are applied with respect to asset pledging.

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. The Bank's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee (LCO) provides senior management oversight of liquidity risk through its weekly meetings.

The key elements of the Bank's liquidity risk management framework include:

- liquidity risk measurement and management limits, including limits on maximum net cash outflow by currency over specified short-term horizons;
- prudent diversification of its wholesale funding activities by using a number of different funding programs to access the global financial markets and manage its maturity profile, as appropriate;
- large holdings of liquid assets to support its operations, which can generally be sold or pledged to meet the Bank's obligations;
- liquidity stress testing, including Bank-specific, Canada-systemic, and global-systemic scenarios; and
- liquidity contingency planning.

The Bank's foreign operations have liquidity management frameworks that are similar to the Bank's framework. Local deposits are managed from a liquidity risk perspective based on the local management frameworks and regulatory requirements.

(i) Contractual maturities

The table below shows the contractual maturities of certain of the Bank's financial liabilities:

As at October 31, 2009 ($ millions)	Payable on demand	Payable after notice	Payable in less than one year	Payable in one to five years	Payable in greater than five years	Total
Deposits	$ 47,036	$ 66,798	$ 172,815	$ 58,851	$ 4,919	**$350,419**
Subordinated debentures	—	—	—	251	5,693	**5,944**
Capital instrument liabilities	—	—	—	—	500	**500**
Total	$ 47,036	$ 66,798	$ 172,815	$ 59,102	$ 11,112	**$356,863**
As at October 31, 2008	$ 37,157	$ 52,312	$ 186,818	$ 63,911	$ 11,234	**$351,432**

(ii) Commitments to extend credit

In the normal course of business, the Bank enters into commitments to extend credit in the form of loans or other financings for specific amounts and maturities, subject to specific conditions. These commitments, which are not reflected on the Consolidated Balance Sheet, are subject to normal credit standards, financial controls and monitoring procedures. As at October 31, 2009 and October 31, 2008, the majority of commitments to extend credit had a remaining term to maturity of less than one year.

(iii) Derivative instruments

The Bank is subject to liquidity risk relating to its use of derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and lower its cost of capital. The maturity profile of the notional amounts of the Bank's derivative instruments is summarized in Note 27(b).

(c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board. The LCO and Market Risk Management and Policy Committee oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures.

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

VaR is a statistical measure that estimates the potential loss in value of the Bank's trading positions due to adverse market movements over a defined time horizon with a specified confidence level. The quality of the Bank's VaR is validated by regular back testing analysis, in which the VaR is compared to theoretical and actual profit and loss results. To complement VaR, the Bank also uses stress testing to examine the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis.

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers. Gap analysis is used to assess the interest rate sensitivity of the Bank's retail, wholesale banking and international operations. Under gap analysis, interest rate-sensitive assets, liabilities and derivative instruments are assigned to defined time periods, on the earlier of contractual repricing or maturity dates on the basis of expected repricing dates.

(i) Interest rate risk

Interest rate risk, inclusive of credit spread risk, is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's funding and investment activities is managed in accordance with Board-approved policies and global limits, which are designed to control the risk to income and economic value of shareholders' equity. The income limit measures the effect of a specified shift in interest rates on the Bank's annual net income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures in individual currencies are also controlled by gap limits.

Interest rate sensitivity gap

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity, and derivative instrument notional amounts in order to arrive at the Bank's interest rate gap based on the earlier of contractual repricing or maturity dates. To arrive at the Bank's view of its effective interest rate gap, adjustments are made to factor in expected mortgage and loan repayments based on historical patterns and reclassify the Bank's trading instruments to the Immediately rate sensitive and Within 3 months categories.

As at October 31, 2009 ($ millions)	Immediately rate sensitive(1)	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	$ 1,539	$ 31,432	$ 1,582	$ —	$ —	$ 8,725	**$ 43,278**
Trading securities	—	3,662	6,452	14,324	13,806	19,823	**58,067**
Securities, other than trading	4,379	4,137	2,700	37,493	4,195	6,323(2)	**59,227**
Securities purchased under resale agreements	—	17,755	18	—	—	—	**17,773**
Loans	32,004	138,340	27,705	58,600	8,584	1,069(3)	**266,302**
Other assets	—	—	—	—	—	51,869(4)	**51,869**
Total assets	$ 37,922	$195,326	$ 38,457	$110,417	$26,585	$ 87,809	**$496,516**
Deposits	$ 50,042	$178,266	$ 52,258	$ 53,778	$ 2,287	$ 13,788	**$350,419**
Obligations related to securities sold under repurchase agreements	—	31,378	5,190	—	—	—	**36,568**
Obligations related to securities sold short	—	26	1,103	6,603	5,655	1,301	**14,688**
Subordinated debentures	—	—	197	4,221	1,526	—	**5,944**
Capital instrument liabilities	—	—	—	500	—	—	**500**
Other liabilities	—	—	—	—	—	63,625(4)	**63,625**
Shareholders' equity	—	—	—	—	—	24,772(4)	**24,772**
Total liabilities and shareholders' equity	$ 50,042	$209,670	$ 58,748	$ 65,102	$ 9,468	$103,486	**$496,516**
On-balance sheet gap	(12,120)	(14,344)	(20,291)	45,315	17,117	(15,677)	**—**
Derivative instruments	—	27,179	(1,300)	(23,897)	(1,982)	—	**—**
Interest rate sensitivity gap based on contractual repricing	(12,120)	12,835	(21,591)	21,418	15,135	(15,677)	**—**
Adjustment to expected repricing	2,120	34,174	(1,573)	(21,348)	(9,585)	(3,788)	**—**
Total interest rate sensitivity gap	**$ (10,000)**	**$ 47,009**	**$(23,164)**	**$ 70**	**$ 5,550**	**$ (19,465)**	**$ —**
Cumulative gap	**$ (10,000)**	**$ 37,009**	**$ 13,845**	**$ 13,915**	**$19,465**	**$ —**	**$ —**

As at October 31, 2008 ($ millions)							
Total interest rate sensitivity gap	$ 13,127	$ 9,661	$ (9,932)	$ 3,138	$ 8,305	$ (24,299)	**$ —**
Cumulative gap	$ 13,127	$ 22,788	$ 12,856	$ 15,994	$24,299	$ —	**$ —**

(1) Represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, prime rate loans.

(2) This represents common shares, preferred shares, and equity accounted investments.

(3) This represents net impaired loans, less the sectoral and general allowance.

(4) This includes non-financial instruments.

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

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

As at October 31, 2009 (%)	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	0.7%	0.5%	4.3%	—	—	**0.7%**
Trading securities	—	1.0	0.9	2.9	4.1	**2.8**
Securities, other than trading (1)	1.6	5.8	5.7	4.2	5.1	**4.3**
Securities purchased under resale agreements	—	1.0	2.9	—	—	**1.0**
Loans(2)	4.6	3.4	4.7	5.7	6.9	**4.3**
Deposits(3)	0.3	0.9	2.2	3.9	5.0	**1.5**
Obligations related to securities sold under repurchase agreements(3)	—	1.0	1.6	—	—	**1.1**
Obligations related to securities sold short	—	0.2	0.4	1.6	3.7	**2.4**
Subordinated debentures(3)	—	—	3.3	5.4	6.3	**5.6(4)**
Capital instrument liabilities(3)	—	—	—	7.3	—	**7.3**

As at October 31, 2008 (%)	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	3.1%	2.2%	5.1%	3.2%	2.7%	2.6%
Trading securities	—	4.4	2.9	4.6	5.2	4.5
Securities, other than trading (1)	4.0	4.9	4.6	4.7	6.6	5.1
Securities purchased under resale agreements	—	3.6	3.2	—	—	3.6
Loans(2)	5.6	5.2	5.7	6.0	7.9	5.6
Deposits(3)	2.9	3.3	3.8	4.6	3.1	3.5
Obligations related to securities sold under repurchase agreements(3)	—	3.3	5.6	—	—	3.3
Obligations related to securities sold short	—	1.7	2.0	2.9	4.3	3.6
Subordinated debentures(3)	—	—	4.8	5.5	5.6	5.4(4)
Capital instrument liabilities(3)	—	—	—	7.3	—	7.3

(1) Yields are based on cost or amortized cost and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. Yields on tax-exempt securities have not been computed on a taxable equivalent basis.

(2) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any unearned income.

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

(4) After adjusting for the impact of related derivatives, the yield was 5.4% (2008 – 5.4%).

Interest rate sensitivity

Based on the Bank's interest rate positions, the following table shows the pro-forma after-tax impact on the Bank's net income over the next twelve months and economic value of shareholders' equity of an immediate and sustained 100 and 200 basis point increase and decrease in interest rates across major currencies as defined by the Bank.

As at October 31	2009						2008	
	Net income			Economic value of equity				
($ millions)	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total	Net income	Economic value of equity
100 bp increase	**$ 98.0**	**$ 52.2**	**$ 150.2**	**$ (29.0)**	**$ (158.9)**	**$ (187.9)**	$ 89.3	$ (372.5)
100 bp decrease	**$ (87.1)**	**$ (91.1)**	**$ (178.2)**	**$ (4.4)**	**$ 177.0**	**$ 172.6**	$ (99.5)	$ 345.8
200 bp increase	**$ 206.2**	**$ 99.5**	**$ 305.7**	**$ (44.3)**	**$ (304.5)**	**$ (348.8)**	$ 173.8	$ (738.4)
200 bp decrease	**$ (184.9)**	**$ (215.0)**	**$ (399.9)**	**$ 123.4**	**$ 432.0**	**$ 555.4**	$ (200.2)	$ 705.6

(ii) Non-trading foreign currency risk

Foreign currency risk is the risk of loss due to changes in spot and forward rates, and the volatility of currency exchange rates. Non-trading foreign currency risk, also referred to as structural foreign exchange risk, arises primarily from Bank's net investments in self-sustaining foreign operations and is controlled by a Board-approved limit. This limit considers potential volatility to shareholders' equity as well as the potential impact on capital ratios from foreign exchange fluctuations. On a quarterly basis, the LCO reviews the Bank's exposures to these net investments. The Bank may fully or partially hedge this exposure by funding the investments in the same currency, or by using other financial instruments, including derivatives.

The Bank is subject to foreign currency risk on the earnings of its foreign operations. To manage this risk, foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, are projected over a number of future fiscal quarters. The LCO assesses economic data and forecasts to decide on the portion of the estimated future foreign currency revenues and expenses to hedge. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency options and swaps.

As at October 31, 2009, a one percent increase (decrease) in the Canadian dollar against all currencies in which the Bank operates decreases (increases) the Bank's before-tax annual earnings by approximately $32 million (October 31, 2008 – $38 million) in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar as at October 31, 2009 would increase (decrease) the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately $187 million (October 31, 2008 – $174 million), net of hedging.

(iii) Equity risk

Equity risk is the risk of loss due to adverse movements in equity prices. Equity price risk is often classified into two categories: general equity risk, which refers to the sensitivity of an instrument or portfolio's value to changes in the overall level of equity prices, and specific equity risk, which refers to that portion of an individual equity instrument's price volatility that is determined by entity-specific characteristics.

The Bank is exposed to equity risk through its equity investment portfolios, which are controlled by Board-approved portfolio, VaR, and stress-test limits. Equity investments include common and preferred shares, as well as a diversified portfolio of third-party managed funds.

The majority of the Bank's equity investment portfolios are managed by Group Treasury under the strategic direction of the LCO. Group Treasury delegates the management of a portion of equity and equity-related portfolios to other external fund managers to take advantage of these fund managers' expertise in particular market niches and products.

The fair value of available-for-sale equity securities is shown in Note 3.

(iv) Trading portfolio risk management

The Bank'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 limits, including aggregate VaR and stress testing limits.

Trading portfolios are marked-to-market in accordance with the Bank's valuation policies. Positions are marked-to-market daily and valuations are independently reviewed by back office or GRM units on a regular basis. These units also provide profit and loss reporting, as well as VaR and limit compliance reporting to business unit management and executive management for evaluation and action as appropriate. VaR is calculated daily using a 99% confidence level, and a one-day holding period. This means that, about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. The Bank calculates general market risk and equity specific risk VaR using historical simulation based on 300 days of market data. For debt specific risk VaR, the Bank uses a combination of Monte Carlo and historical simulation. The table below shows the Bank's VaR by risk factor:

One-day VaR by risk factor

($ millions)	As at October 31, 2009	For the year ended October 31, 2009			As at October 31, 2008
		Average	High	Low	
Interest rate	**$ 15.6**	$ 16.3	$ 26.1	$ 10.9	$ 23.8
Equities	**3.0**	4.6	9.3	2.0	4.9
Foreign exchange	**3.4**	2.2	4.7	0.5	1.7
Commodities	**3.7**	3.5	5.6	1.9	3.4
Diversification	**(10.5)**	(9.6)	N/A	N/A	(7.3)
All-Bank VaR	**$ 15.2**	$ 17.0	$ 28.9	$ 10.2	$ 26.5

25 Financial instruments – fair value

Fair value is normally defined as the amount of consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is quoted bid or ask prices in an active market. Quoted prices are not always available for over-the-counter transactions, as well as transactions in inactive or illiquid markets. In these instances, internal models, normally with observable market-based inputs, are used to estimate fair value. Financial instruments traded in a less active market have been valued using indicative market prices, present value or other valuation techniques. Fair value estimates normally do not consider forced or liquidation sales. Where financial instruments trade in inactive markets or when using models where observable parameters do not exist, greater management judgement is required for valuation purposes. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and therefore may not be reflective of future fair values.

Changes in interest rates and credit spreads are the main cause of changes in the fair value of the Bank's financial instruments resulting in a favourable or unfavourable variance compared to book value. For the Bank's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For available-for-sale securities, derivatives and financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value.

The book value of certain financial assets and financial liabilities that are carried at cost or amortized cost may exceed their fair value due primarily to changes in interest rates and credit spreads. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair value as it is the Bank's intention to hold them until there is a recovery of fair value, which may be to maturity.

Fair value of financial instruments

The following table sets out the fair values of financial instruments of the Bank using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

	2009			2008		
As at October 31 ($ millions)	Total fair value	Total carrying value	Favourable/ (Unfavourable)	Total fair value	Total carrying value	Favourable/ (Unfavourable)
Assets:						
Cash resources	**$ 43,278**	**$ 43,278**	**$ —**	$ 37,318	$ 37,318	$ —
Securities	**117,294**	**117,294**	**—**	88,035	88,035	—
Securities purchased under resale agreements	**17,773**	**17,773**	**—**	19,451	19,451	—
Loans	**266,894**	**266,302**	**592**	288,624	288,680	(56)
Customers' liability under acceptances	**9,583**	**9,583**	**—**	11,969	11,969	—
Derivative instruments (Note 27)	**25,992**	**25,992**	**—**	44,810	44,810	—
Other	**5,801**	**5,801**	**—**	7,396	7,396	—
Liabilities:						
Deposits	**352,691**	**350,419**	**(2,272)**	347,242	346,580	(662)
Acceptances	**9,583**	**9,583**	**—**	11,969	11,969	—
Obligations related to securities sold under repurchase agreements	**36,568**	**36,568**	**—**	36,506	36,506	—
Obligations related to securities sold short	**14,688**	**14,688**	**—**	11,700	11,700	—
Other	**23,754**	**23,754**	**—**	29,805	29,805	—
Subordinated debentures	**6,385**	**5,944**	**(441)**	4,155	4,352	197
Capital instrument liabilities	**531**	**500**	**(31)**	522	500	(22)
Derivative instruments (Note 27)	**28,806**	**28,806**	**—**	42,811	42,811	—

Determination of fair value

The following methods and assumptions were used to estimate the fair values of financial instruments (refer to Note 27(d) for fair value of derivative instruments).

The fair values of cash resources, securities purchased under resale agreements, customers' liability under acceptances, other assets, obligations related to securities sold under repurchase agreements, acceptances and other liabilities are assumed to approximate their carrying values, due to their short-term nature.

Fair values of securities are disclosed in Note 3 for those securities that have quoted market prices; for available-for-sale equity securities that have no quoted market prices, the amounts reflected in the table above include such securities at cost. The fair value of obligations related to securities sold short is assumed to be equal to their book value as they are carried at fair value. These fair values are based on quoted prices, when available. When a quoted price is not readily available, fair values are estimated using quoted market prices of similar securities, or other valuation techniques.

The estimated fair value of loans reflects changes in the general level of interest rates that have occurred since the loans were originated. The particular valuation methods used are as follows:

– For floating rate loans, potential adjustments for credit spread changes are not considered when estimating fair values. Therefore, fair value is assumed to be equal to book value.

– For all other loans, fair value is determined by discounting the expected future cash flows of these loans at market rates for loans with similar terms and risks.

The fair values of deposits payable on demand or after notice or floating rate deposits payable on a fixed date are not adjusted for credit spread changes. Therefore, fair value is assumed to equal book value for these types of deposits. The estimated fair values of fixed-rate deposits payable on a fixed date are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

The fair values of subordinated debentures and capital instrument liabilities are determined by reference to quoted market prices. When quoted market prices are not available, fair values are estimated using current market prices for debt with similar terms and risks.

Fair value hierarchy

The Bank values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Bank maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The following table outlines the fair value hierarchy of instruments carried at fair value.

	Fair value hierarchy(3)			
As at October 31, 2009 ($ millions)	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities(1)	$40,408	$15,683	$ 1,976	**$ 58,067**
Available-for-sale securities(2)	16,485	36,861	1,395	**54,741**
Derivative instruments	81	24,683	1,228	**25,992**
	$56,974	$77,227	$ 4,599	**$138,800**
Liabilities:				
Obligations related to securities sold short	$11,707	$ 2,981	$ —	**$ 14,688**
Derivative instruments	105	26,188	2,513	**28,806**
	$11,812	$29,169	$ 2,513	**$ 43,494**

(1) Includes securities designated as trading. Included in Level 2 trading securities are $4,861 of bonds mainly issued by foreign governments and $10,822 of corporate bonds and other debt instruments which generally trade in public markets.

(2) Excludes available-for-sale equity securities that are not quoted in an active market of $958. Included in Level 2 available-for-sale securities are $7,204 of bonds mainly issued by foreign governments and $8,204 of corporate bonds and other debt instruments which generally trade in public markets. The remaining Level 2 available-for-sale securities are primarily comprised of mortgage-backed securities guaranteed by Canada Mortgage and Housing Corporation.

(3) Loans and deposit notes designated as trading are classified as Level 2.

Level 3 instrument fair value changes

The following table summarizes changes in Level 3 instruments during the year.

As at October 31, 2009 ($ millions)	Trading securities	Available-for-sale securities	Derivative instruments
Balance at beginning of year	$ 3,303	$ 1,249	$ (1,177)(1)
Gains (losses) recorded in net income(2)	(426)	(48)	(63)
Gains (losses) recorded in other comprehensive income	—	10	—
Net purchases, sales, issuances and settlements	(901)	228	(45)
Other, net	—	(44)	—
Balance at end of year	$ 1,976	$ 1,395	$ (1,285)(1)

(1) Represents a net liability.

(2) Gains or losses for items in Level 3 may be offset with gains or losses on related hedging instruments in Level 1 or Level 2.

Level 3 sensitivity analysis

The Bank applies judgment in determining unobservable inputs used to calculate the fair value of Level 3 instruments. Included in the Bank's Level 3 available-for-sale securities are certain securitization retained interests, illiquid debt instruments and structured credit investments. The unobservable inputs used in the valuation of these securities primarily include mortgage prepayment rates, the correlation of default, certain bond yields, as well as the timing and amount of cash flows. A sensitivity analysis has been performed to determine the potential gain or loss by varying the different assumptions by different amounts (for example, varying bond yields by - 0.1% to + 1.0%). For the Bank's available-for-sale securities, the impact of applying these other reasonably possible assumptions, is a potential gain or loss of $62 million and $83 million, respectively.

Substantially all of the Bank's Level 3 trading securities are hedged with Level 3 derivative instruments. Included in the Bank's Level 3 derivative and trading securities are unfunded synthetic collateralized debt obligations, certain interest rate swaps and equity options, and equity investments that are not quoted in an active market. The unobservable inputs used in the valuation of these instruments primarily include the correlation of default, mortgage prepayment rates and equity option volatilities. A sensitivity analysis has been performed on these valuations by varying the different assumptions by different amounts (for example, varying mortgage prepayment rates by +/- 5%). For the Bank's trading securities and derivative instruments, the impact of applying these other reasonably possible assumptions, is a potential net gain or loss of $144 million and $128 million, respectively.

26 Items designated as trading

The Bank has elected to designate certain portfolios of assets and liabilities as trading, which are carried at fair value with changes in fair values recorded in income.

The Bank's trading operations transact credit derivatives for customers. The Bank may purchase the underlying loan(s) from another counterparty to economically hedge the derivative exposure. As a result, the Bank significantly reduces or eliminates an accounting mismatch between the two instruments. The fair value of these loans was $3.5 billion as at October 31, 2009 (2008 — $7.5 billion). The change in fair value that was recorded through trading income for the year ended October 31, 2009 was a gain of $740 million (2008 — loss of $1,765 million; 2007 — gain of $234 million). These changes in fair value were substantially offset by the changes in the fair value of the related credit derivatives.

The Bank's trading operations purchase loan assets in specifically authorized portfolios for which performance is evaluated on a fair value basis. The fair value of these loans was $47 million as at October 31, 2009 (2008 — $56 million). The change in fair value that was recorded through trading income for the year ended October 31, 2009 was a gain of $15 million (2008 — loss of $3 million; 2007 — gain of $11 million).

The Bank has designated certain debt and equity investments as trading securities to reduce an accounting mismatch between these assets and fair value changes in related derivatives. The fair value of these trading securities was $4,283 million as at October 31, 2009 (2008 — $565 million). The change in fair value that was recorded through trading and net interest income for the year ended October 31, 2009 was a gain of $190 million (2008 — loss of $41 million; 2007 — loss of less than $1 million).

The Bank has designated certain deposit note liabilities containing extension features as trading, in order to significantly reduce an accounting mismatch between these liabilities and fair value changes in related derivatives. The fair value of these liabilities was $22 million as at October 31, 2009 (2008 — $297 million). The change in fair value that was recorded through net interest income for the year ended October 31, 2009 was a loss of $2 million (2008 — loss of $15 million; 2007 — gain of $4 million). The change in fair value, which is mainly attributable to changes in interest rates, was substantially offset by the change in fair value of the related derivatives. As at October 31, 2009, the Bank is contractually obligated to pay $22 million to the holders of the notes at maturity (2008 — $295 million).

27 Derivative instruments

(a) Notional amounts

The following table provides the aggregate notional amounts of derivative instruments outstanding by type and segregated between those used by the Bank in its dealer capacity (Trading) and those used in the Bank's asset/liability risk management process (ALM), which includes derivatives designated in hedging relationships. The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Credit derivatives within other derivative contracts are comprised primarily of purchased and sold credit default swap transactions. To a lesser extent, this category also includes total return swaps referenced to loans and debt securities. Other derivative contracts — other includes precious metals other than gold, and other commodities including energy and base metal derivatives.

	2009			2008		
As at October 31 ($ millions)	Trading	ALM	Total	Trading	ALM	Total
Interest rate contracts						
Exchange-traded:						
Futures	$ 62,713	$ 11,281	**$ 73,994**	$ 65,209	$ 6,750	$ 71,959
Options purchased	22,536	—	**22,536**	20,045	—	20,045
Options written	28,485	—	**28,485**	24,604	—	24,604
	113,734	11,281	**125,015**	109,858	6,750	116,608
Over-the-counter:						
Forward rate agreements	49,914	3,051	**52,965**	30,509	1,404	31,913
Swaps	774,859	90,181	**865,040**	649,302	92,430	741,732
Options purchased	11,875	1,165	**13,040**	49,984	2,383	52,367
Options written	14,137	—	**14,137**	37,700	1,375	39,075
	850,785	94,397	**945,182**	767,495	97,592	865,087
Total	$ 964,519	$105,678	**$1,070,197**	$ 877,353	$104,342	$ 981,695
Foreign exchange and gold contracts						
Exchange-traded:						
Futures	$ 8,416	$ —	**$ 8,416**	$ 4,239	$ —	$ 4,239
Options purchased	952	—	**952**	293	—	293
Options written	1,054	—	**1,054**	262	—	262
	10,422	—	**10,422**	4,794	—	4,794
Over-the-counter:						
Spot and forwards	178,886	24,139	**203,025**	261,911	24,279	286,190
Swaps	95,203	23,647	**118,850**	84,695	42,310	127,005
Options purchased	2,754	—	**2,754**	4,358	—	4,358
Options written	3,450	—	**3,450**	4,646	—	4,646
	280,293	47,786	**328,079**	355,610	66,589	422,199
Total	$ 290,715	$ 47,786	**$ 338,501**	$ 360,404	$ 66,589	$ 426,993
Other derivative contracts						
Equity: over-the-counter	$ 27,649	$ 2,675	**$ 30,324**	$ 22,921	$ 2,931	$ 25,852

Credit: over-the-counter	88,935	1,602	**90,537**	119,583	816	120,399
Other	10,081	12	**10,093**	6,959	43	7,002
Total	$ 126,665	$ 4,289	**$ 130,954**	$ 149,463	$ 3,790	$ 153,253
Total notional amounts outstanding	$1,381,899	$157,753	**$1,539,652**	$1,387,220	$174,721	$1,561,941

(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, 2009 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 43,653	$ 30,341	$ —	**$ 73,994**
Forward rate agreements	50,835	2,130	—	**52,965**
Swaps	341,214	402,965	120,861	**865,040**
Options purchased	28,939	6,371	266	**35,576**
Options written	33,985	2,975	5,662	**42,622**
	498,626	444,782	126,789	**1,070,197**
Foreign exchange and gold contracts				
Futures	6,072	2,344	—	**8,416**
Spot and forwards	193,923	8,874	228	**203,025**
Swaps	21,404	53,382	44,064	**118,850**
Options purchased	3,457	249	—	**3,706**
Options written	4,306	198	—	**4,504**
	229,162	65,047	44,292	**338,501**
Other derivative contracts				
Equity	19,526	5,002	5,796	**30,324**
Credit	9,999	67,801	12,737	**90,537**
Other	6,053	4,040	—	**10,093**
	35,578	76,843	18,533	**130,954**
Total	$763,366	$586,672	$189,614	**$1,539,652**

As at October 31, 2008 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 58,968	$ 12,991	$ —	$ 71,959
Forward rate agreements	31,913	—	—	31,913
Swaps	257,450	353,842	130,440	741,732
Options purchased	58,651	13,169	592	72,412
Options written	47,497	11,987	4,195	63,679
	454,479	391,989	135,227	981,695
Foreign exchange and gold contracts				
Futures	2,602	1,637	—	4,239
Spot and forwards	275,526	9,875	789	286,190
Swaps	38,984	52,889	35,132	127,005
Options purchased	4,302	349	—	4,651
Options written	4,524	384	—	4,908
	325,938	65,134	35,921	426,993
Other derivative contracts				
Equity	19,485	6,035	332	25,852
Credit	12,337	48,354	59,708	120,399
Other	4,862	2,140	—	7,002
	36,684	56,529	60,040	153,253
Total	$817,101	$513,652	$231,188	$1,561,941

(c) Credit risk

As with other financial assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Bank. However, whereas the credit risk of other financial assets is represented by the principal amount net of any applicable allowance for credit losses, the credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts generally expose the Bank to credit loss if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, credit risk of derivatives is represented by the positive fair value of the instrument.

Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. The net change in the exchange-traded contracts is normally settled daily in cash with the exchange. Holders of these contracts look to the exchange for performance under the contract.

The Bank strives to limit credit risk by dealing with counterparties that it believes are creditworthy, and manages its credit risk for derivatives through the same credit risk process applied to other financial assets.

The Bank pursues opportunities to reduce its exposure to credit losses on derivative instruments. These opportunities include entering into master netting arrangements with counterparties. The credit risk associated with favourable contracts is eliminated by a master netting arrangement to the extent that unfavourable contracts with the same counterparty are not settled before favourable contracts.

To control credit risk associated with derivatives, the Bank uses the same credit risk management activities and procedures that are used in the lending business in assessing and adjudicating potential credit exposure.

The Bank applies limits to each counterparty, measures exposure as the current positive fair value plus potential future exposure, and uses credit mitigation techniques, such as netting and collateralization. Investment grade counterparties account for a significant portion of the credit risk exposure arising from the Bank's derivative transactions as at October 31, 2009.

Derivative instruments used by the Bank include credit derivatives in its investment and loan portfolios: credit protection is sold as an alternative to acquire exposure to bond or loan assets, while credit protection is bought to manage or mitigate credit exposures.

The following table summarizes the credit exposure of the Bank's over-the-counter derivatives. The credit risk amount (CRA) represents the estimated replacement cost, or positive fair value, for all contracts 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 calculated by multiplying the CEA by the capital requirement (K) times 12.5, where K is a function of the probability of default (PD), loss given default (LGD), maturity and prescribed correlation factors. Other derivative contracts — other includes precious metals other than gold, and other commodities including energy and base metal derivatives.

	2009			2008	
As at October 31 ($ millions)	Notional amount	Credit risk amount (CRA)	Credit equivalent amount (CEA)	Credit risk amount (CRA)	Credit equivalent amount (CEA)
Interest rate contracts					
Futures	$ 73,994	$ —	$ —	$ —	$ —
Forward rate agreements	52,965	5	16	20	20
Swaps	865,040	10,956	14,376	10,197	13,635
Options purchased	35,576	227	263	351	426
Options written	42,622	—	—	—	—
	1,070,197	11,188	14,655	10,568	14,081
Foreign exchange and gold contracts					
Futures	8,416	—	—	—	—
Spot and forwards	203,025	3,336	5,504	13,053	15,963
Swaps	118,850	6,049	12,238	6,662	12,332
Options purchased	3,706	89	142	375	435
Options written	4,504	—	—	—	—
	338,501	9,474	17,884	20,090	28,730
Other derivative contracts					
Equity	30,324	1,267	2,807	1,936	3,463
Credit	90,537	3,578	8,491	11,067	17,834
Other	10,093	485	1,299	1,149	1,709
	130,954	5,330	12,597	14,152	23,006
Total derivatives	$1,539,652	$ 25,992	$ 45,136	$ 44,810	$ 65,817
Less: impact of master netting and collateral		18,293	26,649	24,076	37,296
Total		$ 7,699	$ 18,487	$ 20,734	$ 28,521
Total risk weighted assets			$ 6,092		$ 9,653

(d) Fair value

Fair values of exchange-traded derivatives are based on quoted market prices. Fair values of over-the-counter (OTC) derivatives are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments.

The following table summarizes the fair value of derivatives segregated by type and segregated between trading and those derivatives used in the Bank's asset/liability risk management process (ALM).

	2009		**2009**		2008	
	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	$ 12	$ 9	**$ 5**	**$ 4**	$ 20	$ 24
Swaps	14,302	14,481	**9,808**	**9,875**	9,345	9,508
Options	347	376	**227**	**258**	350	342
	14,661	14,866	**10,040**	**10,137**	9,715	9,874
Foreign exchange and gold contracts						
Forwards	5,922	5,704	**3,046**	**3,228**	12,424	11,445
Swaps	4,694	5,137	**5,143**	**4,846**	4,668	5,061
Options	262	282	**89**	**109**	375	396
	10,878	11,123	**8,278**	**8,183**	17,467	16,902
Other derivative contracts						
Equity	1,234	1,881	**1,223**	**1,401**	1,886	1,356
Credit	8,268	6,712	**3,544**	**4,153**	10,842	8,614
Other	639	511	**485**	**468**	1,118	661
	10,141	9,104	**5,252**	**6,022**	13,846	10,631
Trading derivatives' market valuation	$ 35,680	$ 35,093	**$ 23,570**	**$ 24,342**	$ 41,028	$ 37,407
ALM						
Interest rate contracts						
Forward rate agreements			**$ —**	**$ —**	$ —	$ 2
Swaps			**1,148**	**2,169**	852	1,671
Options			**—**	**—**	1	—
			1,148	**2,169**	853	1,673
Foreign exchange and gold contracts						
Forwards			**290**	**527**	629	1,404
Swaps			**906**	**1,233**	1,994	1,881
Options			**—**	**—**	—	—
			1,196	**1,760**	2,623	3,285
Other derivative contracts						
Equity			**44**	**49**	50	218
Credit			**34**	**486**	225	228
Other			**—**	**—**	31	—
			78	**535**	306	446
ALM derivatives' market valuation			**$ 2,422**	**$ 4,464**	$ 3,782	$ 5,404
Total derivative instruments before netting			**$ 25,992**	**$ 28,806**	$ 44,810	$ 42,811
Less: impact of master netting and collateral			**18,293**	**18,293**	24,076	24,076
Total derivative instruments			**$ 7,699**	**$ 10,513**	$ 20,734	$ 18,735

(1) The average fair value of trading derivatives' market valuation for the year ended October 31, 2008 were: favourable $23,077 and unfavourable $21,575. Average fair value amounts are based on month-end balances.

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

As at October 31 ($ millions)	2009 Favourable	2009 Unfavourable	2008 Favourable	2008 Unfavourable
Derivatives designated in fair value hedging relationships	**$ 565**	**$ 694**	$ 1,391	$ 578
Derivatives designated in cash flow hedging relationships	**250**	**1,351**	689	1,561
Derivatives designated in net investment hedging relationships	**—**	**31**	15	19
Total derivatives designated in hedging relationships	**$ 815**	**$ 2,076**	$ 2,095	$ 2,158

Due to the ineffective portion of designated hedges, the Bank recorded a gain of $127 million (2008 — nil; 2007 — loss of $11 million) during the year, of which a gain of $51 million (2008 — gain of $12 million; 2007 — loss of $20 million) related to cash flow hedges. No ineffectiveness was recognized on net investment hedges. In fiscal 2008, the Bank recorded a cumulative mark-to-market loss of $162 million relating to interest rate derivatives used for certain asset/liability management purposes that did not qualify for hedge accounting.

28 Acquisitions

(a) Canadian acquisitions

The Bank completed the acquisition of E*TRADE Canada on September 22, 2008, through the acquisition of 100% of the outstanding shares for cash consideration of US $470 million.

During the first quarter of 2009, the Bank completed the purchase price allocation for E*TRADE Canada (renamed Scotia iTrade) and recorded goodwill of $430 million and intangibles of $32 million on the Consolidated Balance Sheet.

On December 12, 2008, the Bank completed the acquisition of Sun Life Financial Inc.'s 37.6% ownership stake in CI Financial Income Fund. The consideration was in the form of $1.55 billion cash, $500 million common shares and $250 million non-cumulative preferred shares. This investment is accounted for under the equity method of accounting.

(b) International acquisitions

Current Year

On February 3, 2009, the Bank acquired an additional 24% of Thanachart Bank in Thailand for approximately $270 million, which increased the Bank's ownership from 24.99% to 49%. The investment will continue to be accounted for under the equity method of accounting.

Prior Year

During the second half of 2008, the Bank acquired an additional 20% of Scotiabank Peru for approximately $230 million, which increased the Bank's ownership in Scotiabank Peru from 78% to 98%. This transaction resulted in an increase in goodwill of $62 million. There is also a reduction in non-controlling interest in subsidiaries of $164 million.

The Bank completed the acquisition of Chile's Banco del Desarrollo on November 26, 2007, through the acquisition of 99.55% of the outstanding shares. The purchase price was approximately $1.0 billion Canadian dollar equivalent (CDE), representing a cash payment of $537 billion Chilean Pesos. Based on acquisition date fair values, the total purchase price has been allocated to CDE $6.5 billion of tangible assets, primarily loans, acquired, CDE $6.3 billion of liabilities, primarily deposits, assumed and an estimated value of intangibles and goodwill acquired of CDE $907 million. Subsequent to the acquisition, the Bank has combined the operations of Banco del Desarrollo with its existing Scotiabank Sud Americano banking operations in the International Banking segment.

29 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)	Net income 2009	2008	2007
Net income based on Canadian GAAP	**$ 3,547**	$ 3,140	$ 4,045
Employee future benefits (a)	**(91)**	(24)	(31)
Restructuring costs (b)	**—**	(8)	—
Transfers of loans through securitizations (c)	**—**	—	4
Derivative instruments and hedging activities (d)	**(427)**	201	(30)
Unrealized gains (losses) on securities reclassified (f)	**(17)**	(63)	(12)
Conversion of loans into debt securities (f)	**39**	(16)	29
Available-for-sale securities (f)	**—**	(7)	7
Computer software (g)	**(3)**	(7)	(11)
Stock-based compensation (h)	**5**	(41)	(17)
Tax effect of above differences	**119**	(20)	32
Net income based on U.S. GAAP	**$ 3,172**	$ 3,155	$ 4,016
Preferred dividends paid	**(186)**	(107)	(51)
Net income available to common shareholders based on U.S. GAAP	**$ 2,986**	$ 3,048	$ 3,965
Earnings per common share based on U.S. GAAP (in dollars) (1):			
Basic	**$ 2.95**	$ 3.09	$ 4.01
Diluted	**$ 2.94**	$ 3.07	$ 3.98

(1) Earnings per share calculations are based on full dollar and share amounts.

(a) Employee future benefits

Commencing fiscal 2007, the Bank prospectively adopted a new U.S. GAAP standard which requires: (i) the recognition of a pension and other post-retirement plan's over-funded or under-funded status as an asset or liability, respectively; and (ii) the recognition of existing unrecognized net actuarial gains and losses, prior service costs and credits, and net transitional assets or obligations in other comprehensive income. The new standard also requires, commencing in fiscal 2009, the measurement of defined benefit plan assets and obligations at the fiscal year-end date. Prior to fiscal 2007, U.S. GAAP required the excess of any unfunded accumulated benefit obligation (with certain other adjustments) to be reflected as an additional minimum pension liability in the U.S. GAAP Consolidated Balance Sheet with an offsetting adjustment to intangible assets to the extent of unrecognized prior service costs, with the remainder recorded in other comprehensive income. Upon adoption of the new standard, the minimum pension liability previously recorded under U.S. GAAP was eliminated as part of the transitional adjustment. Although the new U.S. GAAP standard changes the balance sheet presentation of post-retirement benefit plans, the recognition and measurement of pension expense under U.S. GAAP remains unchanged.

Canadian GAAP requires that only the cumulative difference between pension income / expense and funding contributions be reflected in the Bank's Consolidated Balance Sheet. Although Canadian and U.S. GAAP are substantially consistent with respect to recognition and measurement of pension expense, there still continues to be a difference in the charge to income between Canadian and U.S. GAAP, principally due to differences in the amortization of the transitional amounts resulting from differing adoption dates of the previous standards, and differences in the treatment of the pension valuation allowance. Canadian GAAP requires recognition of a pension valuation allowance for any excess of the prepaid benefit expense over the expected future benefit. Changes in the pension valuation allowance are recognized in the Consolidated Statement of Income. U.S. GAAP does not permit recognition of a pension valuation allowance.

The impact of adoption of the U.S. GAAP standard as at October 31, 2007 was an increase of $136 million in other assets, an increase of $538 million in other liabilities, and a decrease of $402 million (net of income taxes is $262 million) in accumulated other comprehensive income. The adoption of the U.S. GAAP standard had no effect on the Bank's Consolidated Statement of Income under U.S. GAAP for any of the years presented.

The impact of the 2009 adoption of the requirement to measure defined benefit plan assets and obligations at the fiscal year-end date was an increase of $2 million to other assets, an increase of $22 million to other liabilities, a decrease of $32 million to retained earnings (net of income taxes is $24 million), and an increase of $6 million (net of income taxes is $4 million) in accumulated other comprehensive income.

(b) Restructuring costs

Under Canadian GAAP, restructuring costs incurred for activities initiated prior to April 1, 2003, were accrued as liabilities provided that a restructuring plan detailing all major actions to be taken had been approved by an appropriate level of management, and significant changes to the plan were not likely. Under U.S. GAAP, for activities initiated prior to January 1, 2003, additional criteria were required to have been met prior to accrual, including that certain restructuring costs be incurred within one year from the date of approval of the restructuring plan; the accruals recorded under Canadian GAAP for certain planned restructuring costs not incurred within the one-year time limit were reversed under U.S. GAAP and the costs are expensed as incurred. For restructuring costs incurred for activities initiated after March 31, 2003, Canadian and U.S. GAAP are consistent.

(c) Transfers of loans through securitizations

Effective July 1, 2001, the Bank adopted a new Canadian accounting guideline for transfers of loans on a prospective basis. This guideline is

consistent with the U.S. standard for transfers of loans adopted on April 1, 2001.

Prior to the adoption of the new Canadian guideline, transfers of loans were treated as sales under Canadian GAAP when the significant

risks and rewards of ownership were transferred. Gains on transfers of loans were recognized immediately, unless there was recourse to the Bank in excess of expected losses, in which case the gains were considered unrealized and deferred until they were collected in cash and there was no recourse to that cash. Under U.S. GAAP, gains on transfers of loans that qualify as sales are recognized in income at the time of sale. There will continue to be differences in Canadian and U.S. GAAP income until the deferred gains related to assets securitized prior to July 1, 2001 have all been recognized in Canadian GAAP income.

Prior to the harmonization of Canadian and U.S. GAAP, some transfers of assets did not qualify for sale accounting under U.S. GAAP. These transfers have been accounted for as secured lending arrangements under U.S. GAAP. This results in the assets remaining on the U.S. GAAP Consolidated Balance Sheet and in the net spread being recognized in U.S. GAAP income over the term of the loans rather than immediate recognition of a gain.

(d) Derivative instruments and hedging activities

As described in Note 1, Canadian GAAP is substantially consistent with U.S. GAAP for the Bank's activities relating to hedging, most embedded derivatives, recognition of inception gains on derivatives valued using unobservable market data, and disclosure of fair values. The current year reconciling items between Canadian and U.S. GAAP relate primarily to the bifurcation of credit-related embedded derivatives in synthetic collateralized debt obligation (CDO) structures and classification of certain financial guarantees.

(e) Classification and Impairment of financial instruments

Effective November 1, 2008, under Canadian GAAP certain debt instruments that are not quoted in an active market were reclassified to loans and receivables which are carried at amortized cost. U.S. GAAP precludes securities from being classified as loans and receivables. As a result, certain debt securities which are classified as loans and receivables under Canadian GAAP are classified as available-for-sale under U.S. GAAP.

Effective May 1, 2009, under U.S. GAAP, certain impaired available-for-sale debt instruments are written down to the extent of incurred credit losses. Under Canadian GAAP, impaired available-for-sale debt instruments are written down to fair value. This change had no impact on the Bank.

(f) Securities

Except as discussed in (e), Canadian GAAP is substantially harmonized with U.S. GAAP for the Bank's activities relating to the accounting for securities. The significant differences between Canadian and U.S. GAAP for fiscal 2008 and prior years are described below.

Under Canadian GAAP, securities are accounted for on a settlement date basis. Under U.S. GAAP, securities are required to be accounted for on a trade date basis.

Under Canadian GAAP, debt securities acquired in a loan restructuring prior to May 1, 2003 were recorded at net book value. Under U.S. GAAP, the debt securities are recorded at their fair value with the difference between the carrying value of the loans and the fair value of the debt securities acquired recorded in income. For debt securities acquired in a loan restructuring after April 30, 2003, Canadian and U.S. GAAP are consistent.

Prior to fiscal 2007, certain securities with embedded derivatives were reclassified from available-for-sale to trading securities. Under Canadian GAAP, these securities were classified as investment securities.

As described in Note 1, Canadian GAAP was amended in October 2008 allowing a reclassification of non-derivative financial assets out of the held-for-trading category under rare circumstances. For fiscal 2008, the Bank reclassified specified assets out of trading securities to available-for-sale securities effective August 1, 2008, as permitted under Canadian GAAP. Under U.S. GAAP, this reclassification was effective October 31, 2008.

(g) 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.

(h) Stock-based compensation

Effective November 1, 2005, the Bank adopted, on a modified prospective basis, a new U.S. GAAP standard amending the accounting for stock-based compensation to new awards and to any awards modified, repurchased or cancelled after the effective date. The prospective adoption of the standard requires the use of a fair-value-based method, rather than an intrinsic-value-based method, to measure and account for the cost of employee services received in exchange for an award linked to the Bank's common shares. The greatest impact was on the Bank's employee stock option plan.

The U.S. GAAP stock-based compensation expense was quantified using the Black-Scholes option pricing model and the following weighted average assumptions:

As at	October 31, 2009	October 31, 2008
Risk-free interest rate	1.71%	2.46%
Expected dividend yield	4.27%	3.76%
Expected price volatility	33.4%	38.2%
Expected life of option	6.5 years	6.0 years

Under Canadian GAAP, the Bank uses an intrinsic-value-based method to record stock-based compensation expense for all liability classified awards. Effective November 1, 2005, the Bank adopted a new pronouncement amending the accounting for stock-based compensation for employees eligible to retire before the vesting date and permitted application on a retrospective basis. There was also a corresponding change in U.S. GAAP; however, this change was required to be applied prospectively under U.S. GAAP for awards granted in fiscal 2006 and onwards.

(i) Liabilities and equity

Under Canadian GAAP, the Scotiabank Trust Securities issued by BNS Capital Trust are recorded as capital instrument liabilities. Under U.S. GAAP, these securities with conversion or conditional redemption features are recorded as non-controlling interest in subsidiaries.

(j) Non-cash collateral

Under Canadian GAAP, non-cash collateral received as part of securities lending transactions is not recognized in the Consolidated Balance Sheet. Under U.S. GAAP, collateral received for transactions where the Bank lends securities as principal is accounted for as a secured borrowing in the Consolidated Balance Sheet.

The adjustment for non-cash collateral received in securities lending transactions resulted in an addition to other assets of $5,750 million (2008 — $6,905 million) and an addition to other liabilities of $5,750 million (2008 — $6,905 million).

(k) Comprehensive income

Both Canadian and U.S. GAAP require a separate Statement of Comprehensive Income. Under Canadian GAAP this was effective only after

November 1, 2006. The main reconciling items between Canadian GAAP and U.S. GAAP relating to comprehensive income in 2007 primarily result from the reversal of certain hedge adjustments recorded in U.S. GAAP prior to November 1, 2006 and repayments and maturities of debt securities acquired in a loan restructuring prior to May 1, 2003. The fiscal 2008 reconciling items also include the reclassification of losses on synthetic collateralized debt obligation structures and changes in assets and liabilities relating to employee future benefits. The fiscal 2009 reconciling items also include the reclassification of certain debt securities to loans and receivables under Canadian GAAP.

(l) Non-controlling interest in subsidiaries

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

(m) Income taxes

On November 1, 2007, the Bank adopted, for U.S. GAAP purposes, Accounting for Uncertainty in Income Taxes in FASB ASC Topic 740 Income Taxes. The Standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken on a tax return.

The Standard uses a two-step approach for evaluating tax positions:

1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized; and 2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with the U.S. GAAP model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

The adoption of Accounting for Uncertainty in Income Taxes in FASB ASC Topic 740 had no material impact on 2008 opening retained earnings under U.S. GAAP. The amount of unrecognized tax benefits as at November 1, 2008 was $490 million. There was a net $50 million increase during 2009 related to tax positions taken during the current and prior periods. The 2009 balance of $540 million of unrecognized tax benefits, if recognized, would affect the effective tax rate. It is difficult to project how unrecognized tax benefits will change over the next 12 months. The Bank operates in Canada, the U.S. and other foreign jurisdictions, subject to examination by tax authorities.

Consolidated statement of comprehensive income (loss)

	2009			2008	2007
For the year ended October 31 ($ millions)	Canadian GAAP	Adjustments	U.S. GAAP		
Net income	**$ 3,547**	**$ (375)**	**$ 3,172**	$ 3,155	$ 4,016
Other comprehensive income (loss), net of income taxes:					
Change in unrealized foreign currency translation gains (losses), net of hedging activities(1)	**(1,736)**	**(3)**	**(1,739)**	2,442	(2,230)
Change in unrealized gains (losses) on available-for-sale securities, net of hedging activities(2)	**894**	**409**	**1,303**	(1,683)	(141)
Change in gains (losses) on derivative instruments designated as cash flow hedges(3)	**43**	**—**	**43**	(525)	115
Change in pension asset and liability(4)	**—**	**(548)**	**(548)**	35	—
Total other comprehensive income (loss)	**$ (799)**	**$ (142)**	**$ (941)**	$ 269	$ (2,256)
Total comprehensive income (loss)	**$ 2,748**	**$ (517)**	**$ 2,231**	$ 3,424	$ 1,760

Accumulated other comprehensive income (loss) (5)

	2009			2008	2007
For the year ended October 31 ($ millions)	Canadian GAAP	Adjustments	U.S. GAAP		
Unrealized foreign currency translation gains (losses), net of hedging activities	**$ (3,917)**	**$ (45)**	**$ (3,962)**	$ (2,223)	$ (4,665)
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	**540**	**(219)**	**321**	(982)	701
Derivative instruments designated as cash flow hedges	**(423)**	**1**	**(422)**	(465)	60
Employee future benefits(6)	**—**	**(795)**	**(795)**	(251)	(286)
Total accumulated other comprehensive income (loss)	**$ (3,800)**	**$ (1,058)**	**$ (4,858)**	$ (3,921)	$ (4,190)

(1) U.S. GAAP amounts are net of income tax expense of $328 (2008 — benefit of $159; 2007 — expense of $427).

(2) U.S. GAAP amounts are net of income tax expense of $570 (2008 — benefit of $717; 2007 — benefit of $65).

(3) U.S. GAAP amounts are net of income tax expense of $44 (2008 — benefit of $246; 2007 — expense of $48).

(4) U.S. GAAP amounts are net of income tax benefit of $290 (2008 — expense of $12; not applicable for 2007).

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

(6) The 2009 and 2007 adjustments include the adoption of the new standard on employee future benefits as discussed in note (a) above.

Condensed consolidated balance sheet

As at October 31 ($ millions)	2009 Canadian GAAP	2009 Adjustments	2009 U.S. GAAP	2008 Canadian GAAP	2008 Adjustments	2008 U.S. GAAP
Assets						
Cash resources	**$ 43,278**	**$ —**	**$ 43,278**	$ 37,318	$ —	$ 37,318
Securities						
Trading	**58,067**	**(314)f**	**57,753**	48,292	721f	49,013
Available-for-sale	**55,699**	**7,244e,f**	**62,943**	38,823	(55)f	38,768
Equity accounted investments	**3,528**	**—**	**3,528**	920	—	920
Securities purchased under resale agreements	**17,773**	**—**	**17,773**	19,451	—	19,451
Loans	**266,302**	**(6,197)c,d,e**	**260,105**	288,680	1,668c,d	290,348
Derivative instruments	**25,992**	**163d**	**26,155**	44,810	—	44,810
Other	**25,877**	**11,242(1)**	**37,119**	29,331	9,258(5)	38,589
	$496,516	**$ 12,138**	**$508,654**	$507,625	$ 11,592	$519,217
Liabilities and shareholders' equity						
Liabilities						
Deposits	**$350,419**	**$ 1,596c,d**	**$352,015**	$346,580	$ 1,668c,d	$348,248
Derivative instruments	**28,806**	**(5)d**	**28,801**	42,811	(9)d	42,802
Other	**85,521**	**11,944(2)**	**97,465**	91,238	10,198(6)	101,436
Non-controlling interest in subsidiaries	**554**	**(554)l**	**—**	502	(502)l	—
Subordinated debentures	**5,944**	**—**	**5,944**	4,352	—	4,352
Capital instrument liabilities	**500**	**(500)i**	**—**	500	(500)i	—
	$471,744	**$ 12,481**	**$484,225**	$485,983	$ 10,855	$496,838
Non-controlling interest in subsidiaries	**$ —**	**$ 1,054i,l**	**$ 1,054**	$ —	$ 1,002i,l	$ 1,002
Shareholders' equity						
Capital stock						
Preferred shares	**$ 3,710**	**$ —**	**$ 3,710**	$ 2,860	$ —	$ 2,860
Common shares and contributed surplus	**4,946**	**—**	**4,946**	3,829	—	3,829
Retained earnings	**19,916**	**(339)(3)**	**19,577**	18,549	60(7)	18,609
Accumulated other comprehensive income (loss)	**(3,800)**	**(1,058)(4)**	**(4,858)**	(3,596)	(325)(8)	(3,921)
	$ 24,772	**$ (1,397)**	**$ 23,375**	$ 21,642	$ (265)	$ 21,377
	$496,516	**$ 12,138**	**$508,654**	$507,625	$ 11,592	$519,217

Note references refer to GAAP differences described above.

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

(2) Refer to a, c, f, h, j.

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

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

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

(6) Refer to a, c, f, h, j.

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

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

Future accounting changes

Business combinations and Non-controlling interest

FASB ASC Topic 805 Business Combinations and Topic 810 Consolidations will be effective for all business combinations occurring on or after November 1, 2009 for U.S. GAAP purposes. These standards will require most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination to be recorded at full fair value; related acquisition and restructuring costs to be expensed instead of being capitalized as part of the purchase consideration and require non-controlling interests to be reported as a separate component of equity.

Derivative instruments and Hedging activities

The disclosure requirements in FASB ASC Topic 815 Derivatives and Hedging requires enhanced disclosures for derivatives and hedged items and their effects on an entity's financial position, results of operations and cash flows. The requirements will be effective commencing November 1, 2009 for U.S. GAAP purposes.

Accounting for transfers of financial assets and Consolidation of variable interest entities

Amendments have been made to the accounting for transfers of financial assets in FASB ASC Topic 860-10 Transfers and Servicing. The new

standard eliminates the concept of Qualifying Special Purpose Entities (QSPEs) and provides additional guidance with regard to accounting for transfers of financial assets. Simultaneously, amendments have been made to FASB ASC 810-10 Consolidation of Variable Interest Entities. The scope of the new standard will now include former QSPEs. In addition, the new standard changes the approach for determining the primary beneficiary of a variable interest entity from a quantitative risk and reward model to a qualitative model, based on control and economics. The new standard also requires that the primary beneficiary analysis be reevaluated whenever circumstances change. Both standards will be effective commencing November 1, 2010 for U.S. GAAP purposes.

Management's Report on Internal Control over Financial Reporting

The management of The Bank of Nova Scotia (the Bank) is responsible for establishing and maintaining adequate internal control over financial reporting, and have designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to U.S. GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Bank's internal control over financial reporting as of October 31, 2009, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, who have audited the consolidated financial statements, have also audited internal control over financial reporting and have issued the report below.

Rick Waugh
President and Chief Executive Officer

Luc Vanneste
Executive Vice-President and
Chief Financial Officer

Toronto, Canada

December 8, 2009

Report of Independent Registered Public Accounting Firm

To the Shareholders of The Bank of Nova Scotia

We have audited The Bank of Nova Scotia's (the "Bank's") internal control over financial reporting as of October 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of October 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have conducted our audits on the consolidated balance sheets of the Bank as at October 31, 2009 and 2008 and the consolidated statements of income, changes in shareholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended October 31, 2009 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, 2009 expressed an unqualified opinion on those consolidated financial statements.

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

December 8, 2009

Exhibit 5

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 by many different parties. Our practices:

- Meet or exceed the standards set out in the guidelines and rules of the Bank Act (Canada) (the "Bank Act") and those of the Canadian Securities Administrators ("CSA") — which include National Instrument 52-110, National Instrument 52-109, National Policy 58-201 and National Instrument 58-101; and
- Comply with applicable requirements of the New York Stock Exchange ("NYSE") and the Sarbanes-Oxley Act of 2002, including applicable rules of the U.S. Securities and Exchange Commission.

The Bank is not required to comply with most of the NYSE corporate governance rules. However, except as summarized in the Corporate Governance section of the Bank's website (www.scotiabank.com), the Bank's practices do not differ significantly from these rules.

The Corporate Governance Policies and the committee charters are available in the Corporate Governance section of the Bank's website and in print to any shareholder who requests a copy from the Bank's Secretary. 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 were revised in 2008 and 2009 to reflect changes in CSA and NYSE requirements. The revised Independence Standards form part of the Bank's Corporate Governance Policies and the text of the Independence Standards can be found in the Corporate Governance section of the Bank's website and are attached below. Each year:

- The Board reviews its Directors against these standards, considering all relevant facts and circumstances, including the relationship of the non-management Directors to the

Bank — as well as any relationship to the Bank of their spouses, children, principal business affiliations and any other relevant individuals.

- All Directors complete a detailed questionnaire to inform this review.
- All Directors certify their compliance with the Bank's Guidelines for Business Conduct, including the requirement that they declare any material interest in matters coming before the Board.

As of December 8, 2009, Richard E. Waugh was the only Director determined to be non-independent, due to his position as President and CEO. Mr. Waugh is also affiliated under the Bank Act due to his management position.

That means, 13 of the current 14 Directors are independent — 92.9% of the Board. Twelve of the 13 nominated Directors are independent (92.3%), including John T. Mayberry, the Chairman of the Board.

The following Directors are independent: Ronald A. Brenneman, C.J. Chen, N. Ashleigh Everett, John C. Kerr, The Honourable Michael J.L. Kirby, John T. Mayberry, Thomas C. O'Neill, Elizabeth Parr-Johnston, Alexis E. Rovzar de la Torre, Indira V. Samarasekera, Allan C. Shaw, Paul D. Sobey and Barbara S. Thomas.

Director Independence Standards

A majority of the Bank's directors are independent, as required by Canadian Securities Administrators' National Policy 58-201 — *Corporate Governance Guidelines* and the current NYSE listed company corporate governance rules. To be considered independent under these rules, the Board must determine that a director has no direct or indirect material relationship with the Bank. A material relationship is a relationship that could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's judgement independent of management. The rules permit the Board to adopt categorical standards in making its independence determinations. The standards adopted by the Board are reproduced below. Definitions and interpretation of terms in the standards are in accordance with applicable source rules and regulations, as amended from time to time. In applying these standards, the Board broadly considers all relevant facts and circumstances.

1. A director will not be independent if:

   - the director is, or has been within the last three years, an employee or executive officer of the Bank or a subsidiary, or an immediate family member of the director is, or has been within the last three years, an executive officer of the Bank or a subsidiary;
   - the director has received, or an immediate family member of the director has received for service as an executive officer, during any twelve-month period within the last three years, more than the lesser of Cdn$75,000 and US$120,000 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 personally works on the Bank's or a subsidiary's audit, or the director's spouse, or child or stepchild who shares a home with the director, is an employee of such 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 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, stepchildren, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares the person's home.

2. In addition to satisfying the independence standards set forth above, members of the audit committee must satisfy the following additional independence requirements:
   - An audit committee member may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Bank or any subsidiary, other than compensation in his or her capacity as a member of the Board or any committee or any fixed amount of compensation under a retirement plan (including deferred compensation) for prior service with the Bank (provided such compensation is not contingent in any way on continued service).
   - An audit committee member may not be an "affiliated" person of the Bank or any subsidiary, as defined in applicable Canadian and U.S. securities laws.

The indirect acceptance by an audit committee member of any consulting, advisory or other compensatory fee includes acceptance of such fee by a spouse, minor child or stepchild or a child or stepchild who shares a home with the audit committee member or by an entity in which such audit committee member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have

no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Bank or any subsidiary.

Whether directors meet these categorical independence standards will be reviewed and will be made public annually prior to their standing for re-election to the Board. The Board will examine relationships such as the nature of the director's banking, lending or other business dealings with the Bank or a director's role in a charitable organization which has received a certain level of contributions from the Bank. For relationships not covered by the standards in section 1 above, the determination of whether the relationship is material, and therefore whether the director would be independent, will be made by the directors who satisfy those standards. The Bank will disclose the basis for any Board determination that a relationship is immaterial despite the fact that it does not meet the categorical standards set forth above.

Exhibit 6



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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") of:

(i) our auditors' report dated December 8, 2009 on the Consolidated Balance Sheets of the Bank as at October 31, 2009 and 2008, and the Consolidated Statements of Income, Changes in Shareholders' Equity, Comprehensive Income and Cash Flows for each of the years in the three-year period ended October 31, 2009;

(ii) our Comments by Auditors for US Readers on Canada-US Reporting Differences, dated December 8, 2009; and

(iii) our Report of Independent Registered Public Accounting Firm dated December 8, 2009 on the Bank's internal control over financial reporting as of October 31, 2009

each of which is contained in this annual report on Form 40-F of the Bank for the fiscal year ended October 31, 2009.

/s/ KPMG LLP
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
December 8, 2009

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Exhibit 7



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COMMENTS BY AUDITORS FOR US READERS ON CANADA – US REPORTING DIFFERENCES

To the Board of Directors of The Bank of Nova Scotia (the "Bank")

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) that refers to the audit report on the Bank's internal control over financial reporting. Our report to the shareholders dated December 8, 2009 is expressed in accordance with Canadian reporting standards, which do not require a reference to the audit report on the Bank's internal control over financial reporting in the financial statement auditors' report.

In addition, in the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Bank's financial statements, such as the changes in accounting standards and policies which are described in Note 1 to the consolidated financial statements as at October 31, 2009 and 2008 and for each of the years in the three-year period ended October 31, 2009, which were due to the adoption of new accounting standards under Canadian generally accepted accounting principles. Our report to the shareholders dated December 8, 2009 is expressed in accordance with Canadian reporting standards, which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

/s/ KPMG LLP
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
December 8, 2009

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Exhibit 8

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 8, 2009

/s/ R. E. 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 8, 2009

/s/ Luc A. Vanneste
Executive Vice-President and
Chief Financial Officer

Exhibit 9

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, 2009 (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.

December 8, 2009

/s/ R. E. Waugh
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, 2009 (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 8, 2009

/s/ Luc A. Vanneste
Luc A. Vanneste
Executive Vice President and
Chief Financial Officer