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, 2010

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	1,042,912,914
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
Preferred Shares, Series 30	10,600,000

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 108 of Exhibit 3, 2010 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 2010 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, 2010, 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: (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 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 of October 31, 2010.

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, 2010.

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 2010.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The disclosure provided in Table 56 "Fees paid to the shareholders' auditors" on page 96 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, consultation with respect to the acquisition of a new entity and consultation and training on accounting and financial reporting under International Financial Reporting Standards.
- 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 for the review of and translation of English language financial statements into other languages. In 2009, services for providing industry salary surveys were also included.

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 2010 and 2009 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 46 to 48 and "Variable Interest Entities" on pages 81 and 82 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 1 on pages 115 to 120, note 4(c) on page 124, note 6 on pages 125 and 126, note 13 on pages 128 to 130, note 14 on pages 130 to 132, note 15 on page 132, note 24 on pages 143 to 145, note 25 on pages 145 to 153, note 26 on pages 154 and 155, and note 28 on pages 156 to 160 of Exhibit 3, 2010 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 pages 74 and 75 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 10 on page 127, note 20 on pages 138 to 140, note 24 on pages 143 to 145, note 25 on pages 145 to 153, and note 26 on pages 154 and 155 of Exhibit 3, 2010 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: 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 3, 2010

EXHIBIT INDEX

Exhibit No.	Description
1.	Annual Information Form dated December 3, 2010
2.	Management's Discussion and Analysis (pages 22 through 105 of the 2010 Annual Report)
3.	2010 Consolidated Financial Statements (pages 107 through 164 of the 2010 Annual Report)
4.	Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm (page 106 of the 2010 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



The Bank of Nova Scotia

ANNUAL INFORMATION FORM

DECEMBER 3, 2010

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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 3, 2010 (the "AIF"), are disclosed in the Management's Discussion and Analysis for the year ended October 31, 2010 (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, 2010. 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 77 inclusive, of the Bank's 2010 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 Asset Management L.P., Scotia Capital Inc., Scotia Securities Inc., Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust, 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 more than 70,000 employees, the Bank and its affiliates offer a broad range of products and services, including personal, commercial, corporate and investment banking to more than 18.6 million customers in more than 50 countries around the world.

In the fiscal year ended October 31, 2010, the Bank's net income available to common shareholders was $4,038 million, an increase of $677 million or 20% higher than 2009. Earnings per share (on a diluted basis) were $3.91, up 18% from $3.31 in 2009. Return on equity was 18.3%. In fiscal 2010, the Bank's actual dividend payout ratio was 50%, compared to 59% in 2009.

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.

DESCRIPTION OF THE BANK'S BUSINESS

General Summary

On September 7, 2010, the Bank announced changes to its organizational structure which became effective from October 1, 2010. For fiscal 2011, the Bank has reorganized from three to four major business lines and will be operating through: Canadian Banking, International Banking, Scotia Capital and Global Wealth Management. For the financial year ending October 31, 2010, however, the Bank operated under the three business lines of Canadian Banking, International Banking and Scotia Capital, and therefore is reporting the financial results of its operations on that basis. A profile of each of the Bank's four major business lines is discussed below and additional information on the Bank's business lines is available in the 2010 MD&A, on pages 52 to 61 inclusive, and those pages are herein incorporated by reference. Beginning in fiscal 2011, the Bank will report its financial results and operations under the four business lines.

Canadian Banking

Canadian Banking provides a full range of banking and investing services to more than 7.6 million customers across Canada, through a network of 1,024 branches, 2,998 ABMs, as well as telephone, Internet banking and third party channels. Canadian Banking includes two main businesses which are Retail and Small Business Banking and Commercial Banking, a description of each is outlined below:

- Retail and Small Business Banking provides mortgages, loans, credit cards, investments, and day-to-day banking products to individuals and small businesses.
- Commercial Banking delivers a full product suite to medium and large businesses, including banking, cash management, lending and leasing.

International Banking

International Banking encompasses Scotiabank's retail and commercial banking operations in more than 45 countries outside Canada — an international presence unmatched by our domestic competitors. More than 48,000 employees, including subsidiaries and affiliates, provide a full range of financial services to 11 million customers through a network of over 2,000 branches and offices, 3,686 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.

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 U.S. and other parts of Latin America. It also provides select products and services to niche markets in Europe and Asia. Since October 1, 2010, this includes wholesale banking products and services in Latin America and Asia-Pacific previously offered through the Bank's International Banking business line.

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

Global Wealth Management

Global Wealth Management is comprised of the wealth management, insurance and Global Transaction Banking businesses. This new business line brings together a number of the Bank's global growth platforms to drive revenue growth across multiple geographies and businesses, within a strong global perspective. Global Wealth Management will collaborate with and strengthen partnership relationships with Canadian Banking, International Banking and Scotia Capital.

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 16 smaller domestic banks, 56 foreign banks and over 1,000 credit unions and caisses populaires. In total, the Canadian financial services industry includes more than 3,500 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 ranked among the countries with the lowest interest rate spreads in recent years. 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 system. Another indicator of competition is new entrants into the market. A total of 18 new entrants, including seven banks and 11 foreign bank branches, received charters from the federal bank regulator between 2005 and 2009.

Supervision and Regulation in Canada

As a Canadian Schedule I Bank, 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, in 2009 certain amendments were made 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, including the Proceeds of Crime (Money Laundering) and Terrorist Financing Act which applies to all of the Bank's businesses in Canada. The activities of the Bank's trust subsidiaries and insurance subsidiaries are regulated in Canada under the Trust and Loan Companies Act and the Insurance Companies Act, respectively, and 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, state securities regulators and self-regulatory organizations, such as the Financial Industry Regulatory Authority, regulate its broker-dealer subsidiary.

The Bank is a "financial holding company" under the BHCA. This status allows a broad range of financial activities, including 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 FDIC-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 can engage in with affiliates of the Bank.

The Bank, as a non-U.S. bank with U.S. operations, is required by the U.S. Bank Secrecy Act as amended by the USA PATRIOT Act of 2001, to take certain steps to prevent, detect and report individuals and entities involved in international money laundering and the financing of terrorism. Failure of a financial institution to comply with these requirements could have serious legal and reputational consequences for the institution.

A wide-ranging U.S. financial regulatory reform package, known as the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), was enacted into U.S. federal law on July 21, 2010. In general, Dodd-Frank lays out numerous financial reforms in broad terms with more specific interpretive issues left to administrative rulemaking by U.S. federal financial agencies. The rulemaking process has commenced but is still in a relatively early stage. Many of the provisions of Dodd-Frank, and the administrative rules interpreting and implementing these provisions, will come into effect over the next couple of years, but some may be implemented over a longer timeframe.

As a result of the enactment of Dodd-Frank, it is expected that the activities of the Bank and its subsidiaries in the United States will become subject to certain new restrictions and heightened requirements, but the precise application and potential impact of the reforms on the Bank (both within and outside of the United States) cannot yet be predicted. Several Dodd-Frank reforms are likely to have an impact on large global banks with U.S. wholesale and retail operations, such as the Bank, and include the following:

- New limits on the ability of banking groups to invest their own money in, and manage, "proprietary trading" and private funds activities;
- Regulation of the over-the-counter derivatives markets, including mandatory clearing and exchange trading requirements for some derivatives products;
- Credit-risk retention requirements in connection with the issuance of an asset-backed security;
- Enhanced supervision and prudential standards (including liquidity and capital standards) for large banking groups operating in the United States;
- Enhanced "financial holding company" qualification requirements (including new capital requirements for "bank holding companies");
- Restrictions on fees charged to retailers by credit card networks; and
- Reform of consumer mortgage practices.

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 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 77 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 2010, 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 2010, the Bank's actual common share dividend payout ratio was 50%, compared to 59% in 2009. The Bank has declared and paid the following dividends on its common shares and preferred shares over the past three completed financial years:

	2010	2009	2008
Common Shares	$ 1.96	$ 1.96	$ 1.92
Series 12	$ 1.3125	$ 1.3125	$ 1.3125
Series 13	$ 1.20	$ 1.20	$ 1.20
Series 14	$ 1.125	$ 1.125	$ 1.125
Series 15	$ 1.125	$ 1.125	$ 1.125
Series 16[1]	$ 1.3125	$ 1.3125	$1.376325
Series 17[2]	$ 1.40	$ 1.40	$ 1.03753
Series 18[3]	$ 1.25	$ 1.25	$ 0.744
Series 20[4]	$ 1.25	$ 1.25	$ 0.4803
Series 22[5]	$ 1.25	$ 1.4204	
Series 24[6]	$ 1.5624	$ 1.3677	
Series 26[7]	$ 1.5625	$1.19649	
Series 28[8]	$ 1.5625	$1.15796	
Series 30[9]	$0.522825		

1 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.

2 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.

3 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.

4 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.

5 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.

6 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 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.

7 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.

8 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.

9 10.6 million Preferred Shares, Series 30 were issued and commenced trading on April 12, 2010. The initial dividend was paid on July 28, 2010 and was $0.2822 per share. Thereafter, quarterly dividends were at a rate of $0.240625 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 1,042,912,914 common shares were issued and outstanding as at October 31, 2010.

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, 2010, 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"), 11,000,000 non-cumulative preferred shares, series 28 ("Preferred Shares, Series 28"), and 10,600,000 non-cumulative preferred shares, series 30 ("Preferred Shares, Series 30") 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"), non-cumulative preferred shares, series 29 ("Preferred Shares, Series 29") and non-cumulative preferred shares, series 31 ("Preferred Shares, Series 31") 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, Preferred Shares, Series 29 and

Preferred Shares, Series 31 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, the Preferred Shares, Series 28 and the Preferred Shares, Series 30.

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, Preferred Shares, Series 28 and Preferred Shares, Series 30 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.

Holders of Preferred Shares, Series 30 will have the right, at their option, on April 26, 2015 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 30 registered in their name into Preferred Shares, Series 31 on the basis of one Preferred Share, Series 31 for each Preferred Share, Series 30.

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, Preferred Shares, Series 29 and Preferred Shares, Series 31

None of the Preferred Shares, Series 19, Preferred Shares, Series 21, Preferred Shares, Series 23, Preferred Shares, Series 25, Preferred Shares, Series 27, Preferred Shares, Series 29 and Preferred Shares, Series 31 (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.

Holders of Preferred Shares, Series 31 will have the right, at their option, on April 26, 2020 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 31 registered in their name into Preferred Shares, Series 30 on the basis of one Preferred Share, Series 30 for each Preferred Share, Series 31.

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.

Credit Ratings of Securities and Liquidity

The Bank maintains large holdings of liquid assets to support its operations. Credit ratings are important to the Bank's borrowing costs and ability to raise funds. A rating's downgrade could potentially have adverse consequences by reducing the Bank's access to capital markets and increasing its borrowing costs. In the event the Bank's credit ratings are downgraded, this could also affect the Bank's position to post additional collateral. While the Bank maintains access to sufficient collateral to meet its obligations, in the event of a downgrade of its ratings by one or more of the rating agencies noted below, a downgrade could affect the Bank's ability, and increase the borrowing costs, to enter into normal course derivative or hedging transactions.

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	A3*	A/P-1 (low)**	Not rated	Pfd-1 (low)

* Changed from Aa3 to reflect a change in Moody's methodology that no longer assumes implied government support for preferred share obligations. The assumption of implied government support continues in the ratings of deposits, senior and subordinated debt.

** Canadian scale

The above-noted ratings have the following meanings:

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

- Moody's long-term ratings are opinions of the relative credit risk of financial 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 (-) is a modifier denoting 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 (+) is a modifier denoting relative status within the A category.
- F1 is the highest credit quality and indicates the strongest intrinsic 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. The capacity for the payment of financial obligations is considered high and credit quality differs from AAA only to a small degree. Obligations with the AA rating are unlikely to be significantly vulnerable to future 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 the capacity for the payment of short-term financial obligations as they fall due is exceptionally high and unlikely to be adversely affected by future events. The category is further denoted by the subcategories "high", "middle", and "low".
- 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, "BNS.PR.X" for the Preferred Shares, Series 28, and "BNS.PR.Y" for the Preferred Shares, Series 30. 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	Series 28	Series 30[2]
November 2009														
-High Price ($)	49.90	23.77	21.83	20.44	20.39	23.60	24.90	26.44	26.35	26.38	—	27.95	27.98	—
-Low Price ($)	44.84	22.81	20.70	19.50	19.50	22.76	24.38	25.72	25.65	25.67	—	27.14	27.28	—
-Volume ('000)	57,660	190	148	254	213	262	173	426	303	252	—	360	309	—
December 2009														
-High Price ($)	49.93	24.10	22.34	21.12	20.79	24.11	25.39	26.75	26.83	26.72	—	28.25	28.33	—
-Low Price ($)	46.55	23.54	21.60	20.05	20.10	23.50	24.54	26.35	26.04	26.10	—	27.50	27.88	—
-Volume ('000)	69,768	174	218	363	361	185	122	157	121	217	—	345	168	—
January 2010														
-High Price ($)	49.53	24.19	22.12	20.97	20.83	24.10	25.00	26.61	26.92	26.73	—	28.21	28.00	—
-Low Price ($)	44.12	23.70	21.68	20.33	20.33	23.46	24.60	26.05	26.06	26.13	—	27.66	27.65	—
-Volume ('000)	60,818	233	117	344	345	237	140	317	307	289	—	291	456	—
February 2010														
-High Price ($)	48.33	23.75	21.87	20.56	20.59	23.69	24.88	26.55	26.49	26.55	—	28.22	28.11	—
-Low Price ($)	44.39	23.10	20.99	20.00	20.00	23.01	24.53	26.19	26.10	26.10	—	27.80	27.81	—
-Volume ('000)	48,391	165	249	468	354	150	139	669	223	266	—	267	303	—
March 2010														
-High Price ($)	55.33	23.35	21.42	20.18	20.24	23.19	24.74	26.84	26.57	26.65	—	28.42	28.50	—
-Low Price ($)	47.83	22.40	20.29	19.13	19.20	22.21	24.07	26.20	26.18	26.04	—	27.85	27.93	—
-Volume ('000)	75,015	195	285	729	417	182	191	235	367	367	—	975	788	—
April 2010														
-High Price ($)	52.45	22.28	20.29	19.39	19.30	22.00	23.86	26.25	26.00	26.24	—	27.96	27.95	24.64
-Low Price ($)	49.34	21.03	19.02	18.24	18.26	21.00	22.60	25.35	25.29	25.40	—	26.44	26.52	23.70
-Volume ('000)	70,697	296	290	479	393	312	416	263	316	435	—	568	752	1,044
May 2010														
-High Price ($)	52.89	22.09	20.00	18.94	18.96	22.00	23.49	25.94	25.81	26.08	—	27.25	27.29	24.54
-Low Price ($)	47.71	21.42	19.40	18.37	18.26	21.24	23.00	25.50	25.47	25.40	—	26.36	26.51	23.90
-Volume ('000)	71,839	147	233	304	306	287	267	130	150	184	—	301	366	424
June 2010														
-High Price ($)	51.85	23.00	21.00	19.87	19.92	23.00	24.82	26.33	26.32	26.41	—	27.75	27.70	24.85
-Low Price ($)	46.40	21.91	19.89	18.86	18.91	21.82	23.35	25.81	25.73	25.81	—	27.05	27.09	24.35
-Volume ('000)	67,956	181	315	329	262	590	152	170	118	119	—	303	150	279
July 2010														
-High Price ($)	52.44	23.90	21.53	20.31	20.37	23.43	24.98	26.34	26.25	26.40	—	27.89	27.92	24.99
-Low Price ($)	47.75	22.67	20.61	19.42	19.35	22.50	24.51	25.82	25.70	25.73	—	27.30	27.25	24.50
-Volume ('000)	61,397	172	279	307	191	428	162	270	186	279	—	261	276	379
August 2010														
-High Price ($)	52.49	24.28	22.28	21.25	21.09	24.19	25.25	26.48	26.84	26.75	—	28.43	28.10	25.00
-Low Price ($)	49.00	23.32	21.00	20.06	20.06	23.24	24.61	26.10	26.08	26.18	—	27.60	27.61	24.62
-Volume ('000)	69,254	227	284	257	384	301	240	160	257	197	—	201	147	385

		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	Series 28	Series 30(2)
September 2010														
-High Price ($)	55.20	24.90	23.40	22.46	22.29	24.99	26.09	27.09	26.89	27.58	—	28.51	28.90	25.63
-Low Price ($)	51.21	24.02	22.02	21.02	20.88	24.00	25.05	26.25	26.50	26.67	—	27.80	27.92	24.96
-Volume ('000)	72,656	189	281	374	380	803	327	1,001	594	388	—	570	483	548
October 2010														
-High Price ($)	55.76	24.98	23.96	22.59	22.79	24.98	25.87	26.76	26.69	26.97	—	28.04	28.07	25.49
-Low Price ($)	53.67	24.37	22.50	21.46	21.45	24.33	25.18	26.10	26.00	26.30	—	27.41	27.42	24.91
-Volume ('000)	50,033	287	363	415	464	620	317	673	391	158	—	444	340	451

(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 30 were issued on April 12, 2010.

Prior Sales

In the most recently completed financial year, the Bank did not issue any securities not listed on an exchange or quoted in any marketplace.

For a list of all outstanding subordinated indebtedness of the Bank see note 12 to the Bank's consolidated financial statements for its year ended October 31, 2010.

DIRECTORS AND EXECUTIVE OFFICERS OF THE BANK

Directors and Board Committees of the Bank

The following are the Bank's directors as of December 3, 2010. 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. Information concerning the nominees proposed by management for election as directors at the annual meeting of shareholders will be contained in the Bank's 2010 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	Corporate Director and retired Executive Vice-Chairman, Suncor Energy Inc., an integrated energy company	76,502 / 38,888
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 / 22,347
David A. Dodge, O.C. Ottawa, Ontario, Canada (Director since April 8, 2010)	ERC	Senior Advisor at Bennett Jones LLP, a law firm	3,000 / 1,013

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
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), Royal Canadian Properties Limited (a real estate and property development company), and L'Eau-1 Inc. operating as Corpell's water, a water purification company specializing in home and office delivery of bottled water	14,863 / 31,429
John C. Kerr, C.M., O.B.C., LL.D. Vancouver, British Columbia, Canada (Director since March 30, 1999)	HRC — Chairman 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 / 36,255
The Honourable Michael J.L. Kirby, O.C. Ottawa, Ontario, Canada (Director since March 28, 2000)	ACRC — Chairman ERC	Chairman of The Mental Health Commission of Canada and Corporate Director	1,584 / 44,768
John T. Mayberry, C.M. Burlington, Ontario, Canada (Director since March 29, 1994)	CGPC ERC Ex officio member of ACRC and HRC	Chairman of the Board of the Bank and Corporate Director	13,087 / 45,662
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 / 7,886
Alexis E. Rovzar de la Torre Greenwich, Connecticut 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	15,550 / 0

Name and Municipality and Province of Residence	Board Committee Memberships	Principal Occupation	Shares / DDSUs Owned
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 / 7,049
Allan C. Shaw, C.M., LL.D. Halifax, Nova Scotia, Canada (Director since September 30, 1986)	ERC — Chairman HRC	Non-Executive Chairman of The Shaw Group Holding Limited, a manufacturer of residential and construction products and a real estate developer	54,387 / 40,568
Paul D. Sobey Chance Harbour, 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	26,000 / 37,816
Barbara S. Thomas Belleair, Florida, U.S.A. (Director since September 28, 2004)	ACRC HRC	Corporate Director	13,021 / 0
Richard E. Waugh Toronto, Ontario, Canada (Director since March 25, 2003)	ERC	President and Chief Executive Officer of the Bank	253,715 / 447,589 (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, 2010.

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; David A. Dodge, who, prior to January 2008, was Governor of the Bank of Canada; 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 3, 2010:

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

Name and Principal Occupation	Municipality of Residence
Sylvia D. Chrominska Group Head, Global Human Resources and Communications	Toronto, Ontario
J. Michael Durland Group Head, Global Capital Markets, and Co-Chief Executive Officer, Scotia Capital	Oakville, Ontario
Christopher J. Hodgson Group Head, Global Wealth Management	Toronto, Ontario
Stephen D. McDonald Group Head, Global Corporate and Investment Banking, and Co-Chief Executive Officer, Scotia Capital	Toronto, Ontario
Robert H. Pitfield Group Head, Chief Risk Officer	Toronto, Ontario
Brian J. Porter Group Head, International Banking	Toronto, Ontario
Anatol von Hahn Group Head, Canadian Banking	Toronto, Ontario
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, Retail Products and Services, Canadian Banking	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

Name and Principal Occupation	Municipality of Residence
Anne Marie O'Donovan Executive Vice-President and Chief Administration Officer, Scotia Capital	Oakville, Ontario
Nicole Reich de Polignac Executive Vice-President, Mexico, and President & CEO, BNS Mexico	Mexico City, Mexico
Luc A. Vanneste Executive Vice-President and Chief Financial Officer	Toronto, Ontario

All of the executive officers of the Bank have been actively engaged for more than five years in the affairs of the Bank in executive or senior management capacities, except: J. Michael Durland and Stephen D. McDonald who, prior to December 3, 2010, were senior officers solely of Scotia Capital Inc.; 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., and Nicole Reich de Polignac who, prior to April 7, 2010 was Senior Vice-President, President and CEO, BNS Mexico, and prior to October 29, 2007 was Senior Vice-President and Country Head, Dominican Republic.

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 or enter into settlement agreements with 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. The Bank has not entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority.(1)

(1) National Instrument 14-101 limits the meaning of “securities legislation” to Canadian provincial and territorial legislation and “securities regulatory authority” to Canadian provincial and territorial securities regulatory authorities.

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 and Conduct Review 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 is a corporate director and has extensive employment experience directly related to the preparation of and supervision of the preparation of financial statements. He served as Executive Vice Chairman of Suncor Energy Inc. from August 2009 to February 2010 and previously served as President and Chief Executive Officer of Petro-Canada (2000 to August 2009). Mr. Brenneman 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 the 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. Ms. Thomas is also chair of the Finance Committee for Blue Cross/Blue 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 56 on page 96 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, consultation with respect to the acquisition of a new entity and consultation and training on accounting and financial reporting under International Financial Reporting Standards.
- Tax services outside of the audit scope relate primarily to 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 for the review of and translation of English language financial statements into other languages. In 2009, services for providing industry salary surveys were also included.

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, 2010. 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, 2010 ($ millions)	Principal office	Carrying value of shares
Canadian		
BNS Capital Trust	Toronto, Ontario	$ 117
BNS Investment Inc.	Toronto, Ontario	$ 11,016
Montreal Trust Company of Canada	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
Dundee Bank of Canada	Toronto, Ontario	$ 674
Maple Trust Company	Toronto, Ontario	$ 204
National Trustco Inc.	Toronto, Ontario	$ 563
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Stratford, Ontario	
RoyNat Inc.	Toronto, Ontario	$ 14
Scotia Asset Management L.P.	Toronto, Ontario	$ 237
Scotia Capital Inc.	Toronto, Ontario	$ 353
Scotia Dealer Advantage Inc.	Burnaby, British Columbia	$ 89
Scotia Insurance Agency Inc.	Toronto, Ontario	$ 1
Scotia Life Insurance Company	Toronto, Ontario	$ 86
Scotia Mortgage Corporation	Toronto, Ontario	$ 296
Scotia Securities Inc.	Toronto, Ontario	$ 27
Scotiabank Capital Trust(2)	Toronto, Ontario	$ 27
Scotiabank Subordinated Notes Trust(2)	Toronto, Ontario	$ 5
Scotiabank Tier 1 Trust(2)	Toronto, Ontario	$ 5
International		
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	$ 219
The Bank of Nova Scotia International Limited	Nassau, Bahamas	$ 9,145
BNS (Colombia) Holdings Limited (99.9%)	Nassau, Bahamas	
Scotiabank Caribbean Treasury Limited	Nassau, Bahamas	
BNS International (Barbados) Limited	Warrens, Barbados	
Grupo BNS de Costa Rica, S.A.	San Jose, Costa Rica	
The Bank of Nova Scotia Asia Limited	Singapore	
The Bank of Nova Scotia Trust Company (Bahamas) Limited	Nassau, Bahamas	
Scotiabank & Trust (Cayman) Ltd.	Grand Cayman, Cayman Islands	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotiabank (Bahamas) Limited	Nassau, Bahamas	
Scotiabank (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	$ 460
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	$ 2,336
Nova Scotia Inversiones Limitada	Santiago, Chile	$ 2,050
Scotiabank Chile, S.A. (99.5%)	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	$ 697
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	$ 740
Scotiabank El Salvador, S.A. (99.5%)	San Salvador, El Salvador	$ 384
Scotiabank Europe plc	London, England	$ 1,911
Scotiabank Peru S.A.A. (97.7%)	Lima, Peru	$ 1,713
Scotiabank Trinidad and Tobago Limited (50.9%)	Port of Spain, Trinidad	$ 213

(1) The Bank owns 100% of the outstanding voting shares or 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 "Bank Act") and the regulations thereunder; and
   - other applicable legislation and regulations including those of the Ontario Securities Commission and the Canadian Securities Administrators, the Toronto Stock Exchange, the New York Stock Exchange ("NYSE"), the Securities and Exchange Commission 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 independent 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 and other periodic reports of Group Compliance, including compliance with the Bank's Guidelines for Business Conduct and any instances of material deviation therefrom with corrective actions taken;
    - review the 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;
- review such returns as specified by OSFI; and
- review and approve the mandate for Group Compliance.

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.

Anti-Money Laundering and Anti-Terrorist Financing Program

- oversee the Bank's Anti-Money Laundering and Anti-Terrorist Financing program;
- 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; and
- meet with the Chief Anti-Money Laundering Officer to receive a report on the Anti-Money Laundering and Anti-Terrorist Financing Program.

Internal Audit

- review and approve the annual audit plan, annual budgets and resources of the Chief Internal Auditor;
- review the quarterly and other 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 a 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 a 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. <u>Duties</u>

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 29, 2010.

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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 2010 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 3, 2010

T1 Financial highlights

As at and for the years ended October 31	**2010**	2009	2008	2007	2006
Operating results ($ millions)					
Net interest income	**8,621**	8,328	7,574	7,098	6,408
Net interest income (TEB (1))	**8,907**	8,616	7,990	7,629	6,848
Total revenue	**15,505**	14,457	11,876	12,490	11,208
Total revenue (TEB (1))	**15,791**	14,745	12,292	13,021	11,648
Provision for credit losses	**1,239**	1,744	630	270	216
Non-interest expenses	**8,182**	7,919	7,296	6,994	6,443
Provision for income taxes	**1,745**	1,133	691	1,063	872
Provision for income taxes (TEB (1))	**2,031**	1,421	1,107	1,594	1,312
Net income	**4,239**	3,547	3,140	4,045	3,579
Net income available to common shareholders	**4,038**	3,361	3,033	3,994	3,549
Operating performance					
Basic earnings per share ($)	**3.91**	3.32	3.07	4.04	3.59
Diluted earnings per share ($)	**3.91**	3.31	3.05	4.01	3.55
Diluted cash earnings per share (1) ($)	**3.97**	3.37	3.11	4.05	3.58
Return on equity (1) (%)	**18.3**	16.7	16.7	22.0	22.1
Productivity ratio (%) (TEB (1))	**51.8**	53.7	59.4	53.7	55.3
Net interest margin on total average assets (%) (TEB (1))	**1.73**	1.68	1.75	1.89	1.95
Balance sheet information ($ millions)					
Cash resources and securities	**162,590**	160,572	125,353	118,030	118,878
Loans and acceptances	**291,840**	275,885	300,649	238,685	212,329
Total assets	**526,657**	496,516	507,625	411,510	379,006
Deposits	**361,650**	350,419	346,580	288,458	263,914
Preferred shares	**3,975**	3,710	2,860	1,635	600
Common shareholders' equity	**23,656**	21,062	18,782	17,169	16,947
Assets under administration	**243,817**	215,097	203,147	195,095	191,869
Assets under management	**48,363**	41,602	36,745	31,403	27,843
Capital measures (2)					
Tier 1 capital ratio (%)	**11.8**	10.7	9.3	9.3	10.2
Total capital ratio (%)	**13.8**	12.9	11.1	10.5	11.7
Tangible common equity to risk-weighted assets (1) (%)	**9.6**	8.2	6.6	7.4	8.3
Assets-to-capital multiple	**17.0**	16.6	18.0	18.2	17.1
Risk-weighted assets ($ millions)	**215,034**	221,656	250,591	218,337	197,010
Credit quality					
Net impaired loans (3) ($ millions)	**3,044**	2,563	1,191	601	570
General allowance for credit losses ($ millions)	**1,410**	1,450	1,323	1,298	1,307
Sectoral allowance ($ millions)	**—**	44	—	—	—
Net impaired loans as a % of loans and acceptances (3)	**1.04**	0.93	0.40	0.25	0.27
Specific provision for credit losses as a % of average loans and acceptances	**0.48**	0.54	0.24	0.13	0.14
Common share information					
Share price ($)					
High	**55.76**	49.19	54.00	54.73	49.80
Low	**44.12**	23.99	35.25	46.70	41.55
Close	**54.67**	45.25	40.19	53.48	49.30
Shares outstanding (millions)					
Average — Basic	**1,032**	1,013	987	989	988
Average — Diluted	**1,034**	1,016	993	997	1,001
End of period	**1,043**	1,025	992	984	990
Dividends per share ($)	**1.96**	1.96	1.92	1.74	1.50
Dividend yield (%) (4)	**3.9**	5.4	4.3	3.4	3.3
Market capitalization ($ millions)	**57,016**	46,379	39,865	52,612	48,783
Book value per common share ($)	**22.68**	20.55	18.94	17.45	17.13
Market value to book value multiple	**2.4**	2.2	2.1	3.1	2.9
Price to earnings multiple	**14.0**	13.6	13.1	13.2	13.7
Other information					
Employees	**70,772**	67,802	69,049	58,113	54,199
Branches and offices	**2,784**	2,686	2,672	2,331	2,191

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

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

MD&A OVERVIEW

Financial results

Scotiabank had record results in 2010 and met or exceeded all of its financial objectives. Net income was $4,239 million, $692 million or 20% higher than last year. Diluted earnings per share (EPS) were $3.91, up 18% from $3.31 in 2009. The impact of foreign currency translation was significant this year, reducing our EPS by 28 cents or 7%. This strong performance resulted in a return on equity of 18.3%.

The Bank's results continued to be significantly affected by foreign currency translation arising from a stronger Canadian dollar and a slow economic recovery in many markets. Notwithstanding, all of Scotiabank's business lines continued to report solid results, including strong earnings in Canadian Banking.

Total revenues increased 7% from last year to $15,791 million on a taxable equivalent basis (TEB), notwithstanding a $719 million negative impact of foreign currency translation. Net interest income (TEB) rose $291 million due to an increase in the total interest margin, strong organic retail loan growth domestically and internationally, the positive impact of changes in the fair value of financial instruments used for asset/liability management purposes and the contribution from recent acquisitions.

Other income was $6,884 million up $755 million or 12% from last year, or $1,061 million or 17% excluding the impact of foreign currency translation. The increase reflected record mutual fund fees, higher net gains on securities due partly to a positive rebound from 2009, growth in brokerage revenues and the contribution from recent acquisitions. The results were negatively impacted by lower trading revenues, and decreased underwriting and credit fees. Securitization revenues were also down from last year due to a reduced level of participation in the Canada Mortgage Bond and Insured Mortgage Purchase Program.

Non-interest expenses were $8,182 million in 2010, an increase of $263 million or 3% from last year, including a benefit of $252 million from the positive impact of foreign currency translation. The increase was primarily from acquisitions, higher performance and stock based compensation, growth in business volumes and expenditures to support revenue initiatives. The productivity ratio was a record low 51.8%, an improvement from 53.7% in 2009.

The provision for credit losses was $1,239 million in 2010, down from $1,744 million last year. The decline reflects net recoveries in Scotia Capital as compared to net provisions last year and the stabilization of retail credit quality in Canadian Banking and most of the International Banking units. In addition, 2010 saw a decrease in the general allowance and a reversal of the sectoral allowance that was established in 2009, as our credit portfolio continued to improve.

The overall tax rate was 28.7%, up from 23.6% last year, due mainly to a higher proportion of income in relatively higher tax jurisdictions. These were partly offset by lower adjustments to future tax assets and a decline in the statutory tax rate in Canada.

The Tier 1 capital ratio at 11.8% and the total capital ratio at 13.8% remained well above the regulatory minimum and were strong by international standards and our highest level in five years.

Outlook

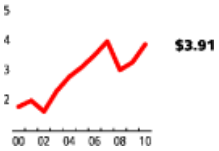
Looking ahead, we remain optimistic despite the high degree of uncertainty that remains in many world economies and continued weakness in a number of global financial markets. However, developing markets are expected to outperform the growth of most developed countries. Due to our longstanding presence in these developing economies, we are well-positioned to capitalize on the growth opportunities that exist.

In addition, we will remain focused on the overarching strategic priorities and values that have led to consistently strong results. This will be reinforced by disciplined risk management, diversification of operations and focus on execution in all our business lines.

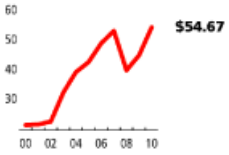
Our strong capital position also gives us confidence and ability to grow our existing business, invest in new businesses, and continue a prudent dividend policy consistent with our earnings growth.

As a result, the Bank expects continued growth in 2011 with solid contributions from each of its four business lines.

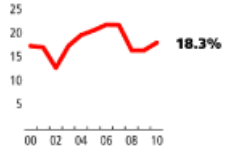
C1 Earnings per share (diluted)



C2 Closing common share price
as at October 31

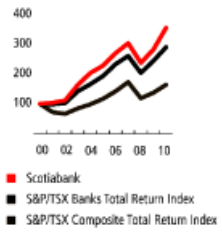


C3 Return on equity



C4 Return to common shareholders

share price appreciation plus dividends reinvested, 2000 = 100



Shareholder returns

The Bank delivered a strong total shareholder return of 25.7% in 2010, a substantial increase from 18.8% in 2009 as shown in Table 2.

The total compounded annual shareholder return on the Bank's shares over the past five years was 9.1% and 13.1% over the past 10 years. This exceeded the total return of the S&P/TSX Composite Index of 7.0% over the past five years and 5.1% over the last ten years, as shown in Chart 4. Furthermore, the Bank's 10 years total shareholder return was the highest among the major Canadian banks.

Quarterly dividends were maintained during the year. Dividends per share totaled $1.96 for the year, unchanged from 2009.

The Bank's Return on Equity was 18.3% for fiscal 2010 an increase from 16.7% in the previous year.

T2 Shareholder return

For the years ended October 31	2010	2009	2008	2007	2006	5-yr CAGR(1)
Closing market price per common share ($)	**54.67**	45.25	40.19	53.48	49.30	**4.9%**
Dividends paid ($ per share)	**1.96**	1.96	1.92	1.74	1.50	**8.2%**
Dividends paid (%)	**4.3**	4.9	3.6	3.5	3.5	
Increase (decrease) in share price (%)	**20.8**	12.6	(24.9)	8.5	14.7	
Total annual shareholder return (%) (2)	**25.7**	18.8	(21.6)	12.2	18.4	

(1) Compound annual growth rate (CAGR)

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

T3 Impact of foreign currency translation

Average exchange rate	2010	2009	2008
U.S. dollar/Canadian dollar	**0.963**	**0.855**	0.974
Mexican peso/Canadian dollar	**12.265**	**11.585**	10.473

Impact on income ($ millions except EPS)	2010 vs. 2009	2009 vs. 2008	2008 vs. 2007
Net interest income	**$ (413)**	$ 235	$ (221)
Other income	**(306)**	111	(80)
Non-interest expenses	**252**	(55)	146
Other items (net of tax)	**178**	(84)	51
Net income	**$ (289)**	$ 207	$ (104)
Earnings per share (diluted)	**$ (0.28)**	$ 0.20	$ (0.10)
Impact by business line ($ millions)			
International Banking	**$ (129)**	$ 82	$ (83)
Scotia Capital	**$ (91)**	$ 103	$ (7)
Canadian Banking	**$ (13)**	$ 16	$ (21)
Other	**$ (56)**	$ 6	$ 7

T4 Impact of acquisitions (1)

($ millions)	2010	2009
Net interest income	**$ 248**	$ 48
Other income	**47**	5
Non-interest expenses	**(85)**	(12)
Other items (net of tax)	**(67)**	(14)
Net income	**$ 143**	$ 27

(1) Includes acquisitions and investments in associated corporations made in 2009 and 2010, excluding funding costs.

Impact of foreign currency translation

The movement in foreign currency average exchange rates had a negative impact on the Bank's earnings in 2010. On average, the Canadian dollar appreciated 13% relative to the U.S. dollar and 6% against the Mexican peso. The Canadian dollar also strengthened against the Jamaican dollar, the Peruvian sol, and many other currencies in which the Bank conducts its business. Changes in the average exchange rates affected net income, as shown in Table 3.

Impact of acquisitions

The Bank made a number of acquisitions in 2009 and 2010 which contributed to growth in Canada and in its International Banking operations. The impact on selected income statement categorized is shown in Table 4.

Non-GAAP measures

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

Taxable equivalent basis

The Bank analyzes net interest income and total revenues on a taxable equivalent basis (TEB). This methodology grosses up tax-exempt income earned on certain securities reported in net interest income to an equivalent before tax basis. A corresponding increase is made to the provision for income taxes; hence, there is no impact on net income. Management believes that this basis for measurement provides a uniform comparability of net interest income arising from both taxable and non-taxable sources and facilitates a consistent basis of measurement. While other banks also use TEB, their methodology may not be comparable to the Bank's. The TEB gross-up to net interest income and to the provision for income taxes for 2010 was $286 million versus $288 million in the prior year. The TEB gross-up to net interest income and to the provision for income taxes for the fourth quarter was $70 million, compared to $73 million in the same period last year and unchanged from $70 million in the prior quarter.

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

Diluted cash earnings per share

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

Productivity ratio (TEB)

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

Net interest margin on total average assets (TEB)

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

Operating leverage

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

Return on equity

Return on equity is a profitability measure that presents the net income 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 segments based on their risk profile and uses a methodology that considers credit, market, operational and other risks inherent in each business segment. The amount of risk capital attributed is commonly referred to as economic equity. Return on economic equity for the business segments 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.

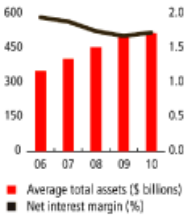
Regulatory capital ratios, such as Tier 1 and Total Capital ratios, have standardized meanings as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI).

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

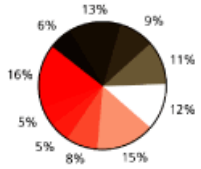


C7 Other income by business line[1]
Taxable equivalent basis, $ millions



(1) Excludes Other segment

C8 Many sources of other income



6% Card revenues
13% Deposit & payment services
9% Mutual funds
11% Investment management, brokerage & trust
12% Credit fees
15% Trading revenues
8% Underwriting fees & other commissions
5% Foreign exchange other than trading
5% Net gain on non-trading securities
16% Other

GROUP FINANCIAL PERFORMANCE

Total revenue

Total revenue on a taxable equivalent basis was $15,791 million in 2010, an increase of $1,046 million or 7% from the prior year, notwithstanding a $719 million or 5% negative impact from foreign currency translation. Both net interest income and other income rose in 2010. The increase in net interest income was due to a wider margin, growth in average assets and the positive impact of changes in fair value of financial instruments used for asset/liability management purposes. Other income was up $755 million year over year, primarily from substantially higher net gains on securities and stronger mutual fund revenues.

Canadian Banking revenues grew 11% over last year in both net interest income and other income. Higher net interest income reflected volume growth and a slightly wider margin. Other income had substantial growth in mutual fund revenues, net gains on securities and retail brokerage fees.

International Banking revenues were up 4% in 2010, which included a $429 million negative impact from foreign currency translation. Interest income was relatively flat year over year as a higher margin was offset by a reduction in average earning assets, which were also negatively impacted by foreign currency translation. The increase in other income was driven by higher net gains on securities, higher mutual fund and insurance revenues, and the contribution from R-G Premier Bank of Puerto Rico.

Total revenues in Scotia Capital fell 11% from 2009 with declines in both net interest income and other income, although the latter was caused largely by the negative impact from foreign currency translation. The lower interest income was due to a significant decline in corporate lending volumes as well as lower spreads on capital market assets. Other income was modestly down from the record level in 2009, with lower

investment banking revenues from a reduction in new issues, as well as slightly lower trading revenues, primarily in foreign exchange.

Net interest income

Net interest income on a taxable equivalent basis was $8,907 million in 2010, an increase of $291 million or 3% over last year. This included a negative impact of $413 million from foreign currency translation.

Average assets grew by $3 billion over the year to $516 billion. Growth in deposits with banks was $14 billion or 38%, securities were up $13 billion or 13%, residential mortgages grew $4 billion or 4% and securities purchased under resale agreements rose $5 billion or 28% in 2010. These increases were offset by lower volumes of business and government lending, down $21 billion or 18%, and a decline in non-earning assets of $15 billion or 20%.

Canadian Banking's average earning assets grew by 6% or $12 billion to $204 billion, primarily in residential mortgages and personal lines of credit.

International Banking's average earning assets fell by $3 billion or 3% to $87 billion partly reflecting foreign currency translation. Business lending was down in Chile and Mexico and reverse repos declined in Mexico.

Scotia Capital's average earning assets fell by $8 billion or 5% to $139 billion, with declines in US, Europe and Canadian corporate lending. This was partially offset by higher volumes of trading securities, derivatives and deposits with banks.

The Bank's net interest margin was 1.73%, a five basis point improvement from last year, mainly from wider spreads on the Canadian floating rate portfolio. As well, the margin benefitted from lower volumes of non-earning assets, a favourable change in the fair value of financial instruments used for asset/liability management purposes, and higher earnings from associated corporations. These factors were partially offset by higher volumes of low spread deposits with banks, narrower spreads on our foreign currency treasury funding and lower spreads in business lending in Asia.

Canadian Banking's margin improved from the impact of asset re-pricing and lower short term wholesale funding rates. Scotia Capital's margin fell during 2010 from a changing business mix as an increasing proportion of narrower spread capital markets assets more than offset wider corporate loan spreads. International Banking's margin improved year over year from higher earnings from associated corporations and acquisitions, and wider margins in both Mexico and Peru.

Outlook

The Bank's net interest income is expected to increase in 2011, driven by moderate asset growth and a wider margin, as well as the full year impact of the acquisitions made in 2010.

Other income

Other income was a record $6,884 million in 2010, an increase of $755 million or 12% from the prior year, notwithstanding a negative impact of $306 million from foreign currency translation. This increase was primarily from substantially higher net gains on securities (as 2009 included negative valuation adjustments), and stronger mutual fund fees partially offset by lower securitization revenues.

Card revenues of $426 million were $2 million higher than the previous year. Canadian Banking revenues were 11% higher than 2009 mainly from the full year impact of the Momentum Visa card. International Banking revenues fell 10%, mainly in Peru in part from lower late payment fees driven by improved delinquency ratios.

Revenues from deposit and payment services earned from retail, commercial and corporate customers of $883 million were 3% below 2009. Canadian Banking revenues were 2% below the prior year and International Banking were 4% lower, primarily in Mexico and Chile from regulatory reductions in ATM fees.

Mutual fund revenues rose a substantial $211 million or 57% to a record $582 million. This increase was driven by a 27% growth in average assets under

T5 Net interest income and margin (1)

($ millions, except percentage amounts)	2010	2009	2008	2007	2006
Average assets	**515,991**	513,149	455,539	403,475	350,709
Net interest income (1)	**8,907**	8,616	7,990	7,629	6,848
Net interest margin	**1.73%**	1.68%	1.75%	1.89%	1.95%

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

T6 Average balance sheet(1) and interest margin

Taxable equivalent basis(2) For the fiscal years ($ billions)	2010 Average balance	2010 Average rate	2009 Average balance	2009 Average rate
Assets				
Deposits with banks	**$ 52.2**	**0.56%**	$ 37.7	1.28%
Securities	**117.6**	**3.84**	104.4	4.19
Securities purchased under resale agreements	**23.6**	**0.85**	18.4	2.13
Loans:				
Residential mortgages	**111.6**	**3.97**	107.6	4.39
Personal and credit cards	**60.5**	**6.80**	59.4	7.08
Business and government	**92.1**	**3.94**	112.7	4.48
	264.2	**4.61**	279.7	5.00
Total earning assets	**457.6**	**3.75**	440.2	4.37
Customers' liability under acceptances	**8.1**	**—**	12.0	—
Other assets	**50.3**	**—**	60.9	—
Total assets	**$ 516.0**	**3.33%**	$ 513.1	3.75%
Liabilities and shareholders' equity				
Deposits:				
Personal	**$ 124.4**	**2.04%**	$ 122.5	2.74%
Business and government	**212.9**	**1.93**	202.8	2.32
Banks	**23.2**	**0.54**	24.1	1.19
	360.5	**1.88**	349.4	2.39
Obligations related to securities sold under repurchase agreements	**40.3**	**0.72**	40.8	1.66
Subordinated debentures	**5.9**	**4.87**	5.5	5.18
Capital instrument liabilities	**0.5**	**7.34**	0.5	7.36
Other interest-bearing liabilities	**33.7**	**2.63**	28.8	4.41
Total interest-bearing liabilities	**440.9**	**1.88**	425.0	2.50
Other liabilities including acceptances	**49.2**	**—**	64.4	—
Shareholders' equity	**25.9**	**—**	23.7	—
Total liabilities and equity	**$ 516.0**	**1.60%**	$ 513.1	2.07%
Net interest margin		**1.73%**		1.68%

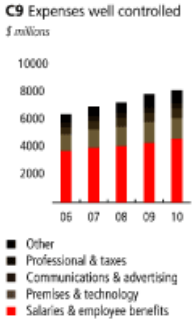
(1) Average of daily balances.

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

T7 Trading revenue

Taxable equivalent basis[1] For the fiscal years ($ millions)	**2010**	2009	2008	2007	2006
Reported in:					
Other income	**$ 1,016**	$ 1,057	$ 188	$ 450	$ 637
Net interest income	**405**	423	417	519	394
Total trading revenue	**$ 1,421**	$ 1,480	$ 605	$ 969	$ 1,031
By trading products:					
Securities trading	**$ 314**	$ 572	$ (27)	$ 65	$ 145
Foreign exchange and precious metals trading	**478**	534	384	323	301
Derivatives trading	**629**	374	248	581	585
Total trading revenue	**$ 1,421**	$ 1,480	$ 605	$ 969	$ 1,031
% of total revenues (net interest income plus other income)	**9%**	10%	5%	7%	9%

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



management in Scotia Funds, and stronger earnings from associated corporations. The average asset growth was from strong sales throughout 2010 as well as favorable market conditions. Mutual fund fees in International Banking grew a strong 36%, with Mexico, Chile and Peru all contributing to this increase.

Revenues from investment management, brokerage and trust services were up a solid 7% year over year to $781 million, mainly in ScotiaMcLeod full service brokerage reflecting higher fee based revenues. This was partly offset by lower discount brokerage revenues as a result of lower commissions per trade.

Credit fees fell $35 million from the high levels in 2009. Average banker's acceptance rates reached record levels during 2010 but were offset by lower volumes. Standby loan fees grew substantially year over year, primarily from lower loan utilization.

Trading revenues were $41 million below the record levels set in 2009, but still higher than in previous years. Global fixed income business results improved year over year, partially offset by lower foreign exchange trading revenues. Precious metals revenues were $4 million below last year's record level.

Underwriting fees and commissions were 10% lower than last year as new issue fees fell in Scotia Capital. Non-trading foreign exchange revenues were 10% below 2009, driven by lower transactions in Mexico from reduced US dollar/Peso volatility.

Net gain on securities were $355 million in 2010, compared to a loss of $412 million in the previous year. These net gains were higher in each business line from a combination of both higher gains on sales of securities and lower valuation adjustments. Securitization revenues of $124 million were $285 million below the prior year, as 2010 reflected a lower level of participation in the Canada Mortgage Bond and Insured Mortgage Purchase Program, and lower spreads.

Other revenues were up $200 million from the prior year, due to growth in insurance revenues, higher positive impact of changes in the fair value of non-trading financial instruments, a net gain on the sale of the pension administration business in Mexico, and the contribution from R-G Premier Bank of Puerto Rico.

Outlook

The Bank expects increases in most other income categories in 2011, from acquisitions, higher customer activity and improved market conditions.

T8 Other income

For the fiscal years ($ millions)	2010	2009	2008	2007	2006	2010 versus 2009
Card revenues	**$ 426**	$ 424	$ 397	$ 366	$ 307	**—%**
Deposit and payment services						
Deposit services	**686**	707	675	652	622	**(3)**
Other payment services	**197**	198	187	165	144	**(1)**
	883	905	862	817	766	**(3)**
Mutual funds	**582**	371	317	296	241	**57**
Investment management, brokerage and trust services						
Retail brokerage	**541**	507	538	553	481	**7**
Investment management and custody	**106**	94	96	87	70	**13**
Personal and corporate trust	**134**	127	126	120	115	**6**
	781	728	760	760	666	**7**
Credit fees						
Commitment and other credit fees	**652**	658	436	403	414	**(1)**
Acceptance fees	**179**	208	143	127	116	**(14)**
	831	866	579	530	530	**(4)**
Trading revenues	**1,016**	1,057	188	450	637	**(4)**
Underwriting fees and other commissions	**561**	620	402	498	453	**(10)**
Foreign exchange, other than trading	**337**	373	314	239	206	**(10)**

Net gain (loss) on securities, other than trading	**355**	(412)	(374)	488	371	**100+**
Securitizaton revenues	**124**	409	130	34	43	**(70)**
Other	**988**	788	727	914	580	**25**
Total other income	**$ 6,884**	$ 6,129	$ 4,302	$ 5,392	$ 4,800	**12%**
Percentage increase (decrease) over previous year	**12%**	42%	(20)%	12%	6%	

Non-interest expenses

Non-interest expenses were $8,182 million in 2010, an increase of $263 million or 3% from last year, including a benefit from the positive impact of foreign currency translation of $252 million. Acquisitions accounted for approximately $73 million or 28% of the underlying growth in non-interest expenses.

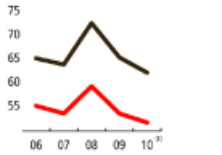
Salaries and employee benefits were $4,647 million in 2010, up $303 million or 7% from last year. Salaries were up 3%, reflecting annual pay increases, as well as higher staffing in Canada to support growth initiatives, branch openings in Mexico, and the impact of acquisitions. Performance-based compensation was $53 million or 5% higher than last year, due to the Bank's stronger financial performance in 2010. Stock-based compensation increased $126 million over last year due in part to changes in incentive plans and a higher stock price. Pension and other employee benefits increased $49 million, due primarily to an increase in pension costs and higher payroll taxes.

Premises and technology expenses were $1,526 million in 2010, a decrease of $17 million or 1% from last year. Excluding acquisitions and the favourable impact of foreign currency translation, premises and technology expenses rose $18 million or 1%. The increase in premises costs reflected new branches (5 in Canada, 51 in Mexico), and higher depreciation charges.

Advertising and business development expenses were $364 million in 2010, an increase of $57 million or 18% over last year, as a result of various marketing initiatives including advertising campaigns and sponsorships in Canada, the Caribbean and Mexico, and other initiatives to acquire new customers.

C10 Industry-leading productivity

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

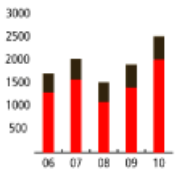


(Source: published financial data)

(1) 9 months to July 31, 2010 for 5 other major Canadian banks.

C11 Direct and indirect taxes

$ millions



(1) Includes taxable-equivalent adjustment

T9 Non-interest expenses and productivity

For the fiscal years ($ millions)	2010	2009	2008	2007	2006	2010 versus 2009
Salaries and employee benefits						
Salaries	**$ 2,751**	$ 2,676	$ 2,549	$ 2,315	$ 2,100	**3%**
Performance-based compensation	**1,088**	1,035	913	1,017	936	**5**
Stock-based compensation	**205**	79	89	133	164	**100+**
Pensions and other employee benefits	**603**	554	558	518	568	**9**
	4,647	4,344	4,109	3,983	3,768	**7**
Premises and technology						
Net premises rent	**243**	243	217	197	181	**—**
Premises repairs and maintenance	**85**	87	83	75	60	**(2)**
Property taxes	**73**	72	65	65	61	**1**
Computer equipment, software and data processing	**685**	687	650	603	549	**—**
Depreciation	**236**	234	208	203	184	**1**
Other premises costs	**204**	220	194	192	171	**(7)**
	1,526	1,543	1,417	1,335	1,206	**(1)**
Communications						
Telecommunications	**79**	80	79	73	68	**(1)**
Stationery, postage and courier	**261**	266	247	227	208	**(2)**
	340	346	326	300	276	**(2)**
Advertising and business development						
Advertising and promotion	**250**	202	206	193	126	**24**
Travel and business development	**114**	105	114	118	106	**9**
	364	307	320	311	232	**19**

Professional	**224**	216	227	227	174	**4**
Business and capital taxes						
Business taxes	**125**	129	90	107	98	**(3)**
Capital taxes	**46**	48	26	36	35	**(4)**
	171	177	116	143	133	**(4)**
Other						
Employee training	**39**	26	43	53	47	**50**
Amortization of goodwill and other intangibles	**98**	96	83	64	46	**2**
Other	**773**	864	655	578	561	**(11)**
	910	986	781	695	654	**(8)**
Total non-interest expenses	**$ 8,182**	$ 7,919	$ 7,296	$ 6,994	$ 6,443	**3%**
Productivity ratio (TEB)(1)	**51.8%**	53.7%	59.4%	53.7%	55.3%	

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

Professional fees rose $8 million or 4% to $224 million, due mainly to project related spending. Business and capital taxes were $171 million, $6 million or 4% lower than last year, due to the positive impact of foreign currency translation.

Other expenses were $910 million in 2010, down $76 million or 8% from last year, due largely to reductions in legal provisions, securitization expenses and loyalty reward point costs.

Our productivity ratio — a measure of efficiency in the banking industry — was 51.8% for 2010, an improvement from 53.7% in 2009. The Bank continued to have positive operating leverage, with 7% revenue growth versus 3% expense growth.

Outlook

Expense control remains a key strength of the Bank. However, non-interest expenses are expected to increase in 2011, driven mainly by acquisitions and volume-related growth. Pension costs are also expected to rise from the impact of a lower discount rate on actuarial liabilities. The productivity ratio is not expected to remain at the record low level achieved in 2010.

Taxes

The provision for income taxes was $1,745 million in 2010, an increase from $1,133 million last year. The Bank's overall effective tax rate for the year was 28.7%, up from 23.6% last year. This increase was due primarily to a higher proportion of income in high tax rate jurisdictions. These items were partially offset by a reduction in the statutory tax rate in Canada and lower writedowns of future tax assets.

Outlook

The Bank's consolidated effective tax rate is expected to be in the range of 21% to 25% in 2011.

Non-controlling interest

The deduction for non-controlling interest in subsidiaries was $100 million in 2010, a decrease of $14 million from 2009, due primarily to the lower level of income in certain international subsidiaries.

Credit quality

Provision for credit losses

The provision for credit losses was $1,239 million in 2010, down from $1,744 million last year.

The specific provision for credit losses in Canadian Banking was $713 million, an increase of $18 million from $695 million last year, with moderately higher retail provisions somewhat offset by moderately lower commercial provisions.

The specific provision for credit losses in International Banking was $616 million in 2010, an increase of $39 million from last year. Higher provisions in the Caribbean were partially offset by lower provisions in Asia, Mexico, and Latin America.

Scotia Capital experienced a net recovery of specific provisions of $6 million in 2010, primarily in Canada and the U.S., versus specific provisions of $301 million in 2009.

The general allowance for credit losses decreased by $40 million in 2010 compared to an increase of $127 million

T10 Impaired loans by business line

	Net impaired loans		Allowance for credit losses		Gross impaired loans				
As at October 31 ($ millions)	**2010**	2009	**2010**	2009	**2010**	2009	2008	2007	2006
Canadian Banking									
Retail	**$ 424**	$ 508	**$ (451)**	$ (361)	**$ 875**	$ 869	$ 523	$ 391	$ 374
Commercial	**184**	138	**(157)**	(164)	**341**	302	238	197	263
	608	646	**(608)**	(525)	**1,216**	1,171	761	588	637
International Banking									
Mexico	**110**	95	**(140)**	(143)	**250**	238	216	188	213
Caribbean and Central America	**1,502**	744	**(188)**	(187)	**1,690**	931	560	397	375
Latin America	**588**	572	**(346)**	(443)	**934**	1,015	801	285	357
Asia and Europe	**9**	77	**(31)**	(6)	**40**	83	32	27	35
	2,209	1,488	**(705)**	(779)	**2,914**	2,267	1,609	897	980
Scotia Capital									
Canada	**34**	73	**(26)**	(14)	**60**	87	—	18	18
United States	**154**	354	**(25)**	(54)	**179**	408	107	11	119
Europe	**39**	2	**(13)**	(4)	**52**	6	17	30	116
	227	429	**(64)**	(72)	**291**	501	124	59	253
Gross impaired loans					**$ 4,421**	$ 3,939	$ 2,494	$ 1,544	$ 1,870
Specific allowance for credit losses			**$(1,377)**	$(1,376)			$(1,303)	$ (943)	$(1,300)
Net impaired loans(1)	**$ 3,044**	$ 2,563					$ 1,191	$ 601	$ 570
General allowance for credit losses	**(1,410)**	(1,450)					(1,323)	(1,298)	(1,307)
Sectoral allowance	**—**	(44)					—	—	—

Net impaired loans after general and sectoral allowances	**$ 1,634**	$ 1,069	$ (132)	$ (697)	$ (737)
Gross impaired loans as a % of total allowance for credit losses and shareholders' equity	**14.5%**	14.3%	10.3%	7.3%	9.3%
Net impaired loans(1) as a % of loans and acceptances	**1.04%**	0.93%	0.40%	0.25%	0.27%
Specific allowance for credit losses as a % of gross impaired loans	**31%**	35%	52%	61%	70%

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

in 2009. Factors contributing to this change include improved credit quality, and to a lesser extent, a stronger Canadian dollar.

The sectoral allowance established for the automotive industry, was $44 million as at October 31, 2009 ($7 million in Canadian Banking and $37 million in Scotia Capital). This reserve was fully reversed in 2010, reflecting the stabilization of the automotive industry.

Allowance for credit losses

The total allowance for credit losses decreased to $2,796 million as at October 31, 2010 from $2,875 million last year. The $79 million decline was attributable primarily to the $44 million reversal of the sectoral allowance during the year, and a $40 million reduction in the general allowance in the fourth quarter of 2010. Specific allowances of $1,377 million were largely unchanged from the previous year.

Specific allowances in Canadian Banking increased $83 million, primarily in the retail portfolios, where new provisions exceeded loan write-offs.

In International Banking, specific allowances declined by $74 million to $705 million, with reductions in most regions in Latin America partially offset by increases in Asia.

Scotia Capital's specific allowances declined slightly to $64 million from $72 million, with declines in the U.S. portfolio offsetting increases in the Canadian and European portfolios.

T11 Specific provisions for credit losses by business line

For the fiscal years ($ millions)	2010	2009	2008	2007	2006
Canadian Banking					
Retail	**$ 574**	$ 544	$ 316	$ 274	$ 229
Commercial	**139**	151	83	21	50
	713	695	399	295	279
International Banking					
Mexico	**168**	185	141	68	27
Caribbean and Central America	**243**	150	89	48	15
Latin America	**193**	202	—	(11)	14
Asia and Europe	**12**	40	6	(4)	4
	616	577	236	101	60
Scotia Capital					
Canada	**(1)**	109	(11)	—	(6)
United States	**(13)**	192	16	(91)	(41)
Europe	**8**	—	(10)	(10)	(16)
	(6)	301	(5)	(101)	(63)
Total	**$ 1,323**	$ 1,573	$ 630	$ 295	$ 276

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

For the fiscal years (%)	2010	2009	2008	2007	2006
Canadian Banking					
Retail	**0.32%**	0.33%	0.22%	0.22%	0.20%
Commercial	**0.57**	0.60	0.31	0.09	0.22
	0.35	0.37	0.23	0.19	0.20
International Banking	**0.99**	0.90	0.44	0.25	0.18
Scotia Capital(1)	**(0.02)**	0.61	(0.01)	(0.33)	(0.25)
Weighted subtotal — specific provisions	**0.48**	0.54	0.24	0.13	0.14
General and sectoral provisions	**(0.03)**	0.06	—	(0.01)	(0.03)
Weighted total	**0.45%**	0.60%	0.24%	0.12%	0.11%

(1) Corporate Banking only.

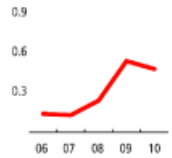
T13 Net charge-offs(1) as a percentage of average loans and acceptances

For the fiscal years (%)	2010	2009	2008	2007	2006
Canadian Banking					
Retail	**0.30%**	0.27%	0.20%	0.20%	0.18%
Commercial	**0.59**	0.51	0.23	0.25	0.12
	0.34	0.30	0.20	0.21	0.17
International Banking	**1.05**	0.93	0.53	0.51	0.36
Scotia Capital(2)	**(0.01)**	0.53	0.03	(0.05)	0.03
Weighted total	**0.49%**	0.49%	0.24%	0.23%	0.19%

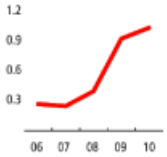
(1) Write-offs net of recoveries.

(2) Corporate Banking only.

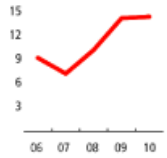
C12 Credit losses
specific provisions as a % of average loans & acceptances



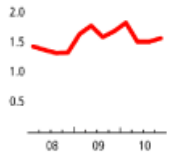
C13 Net impaired loan ratio
as a % of loans & acceptances, as at October 31



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



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



Impaired Loans

Gross impaired loans increased to $4,421 million as at October 31, 2010 from $3,939 million last year.

Impaired loans in Canadian Banking increased $45 million, primarily in the commercial portfolios.

In International Banking, impaired loans increased by $647 million largely due to the inclusion of impaired loans from the acquisition of R-G Premier Bank of Puerto Rico. These impaired loans are carried at fair value on the date of acquisition and no allowance for credit losses is recorded at the acquisition date, as credit losses are included in the determination of the fair value. Under the terms of the acquisition, the Federal Deposit Insurance Corporation (FDIC) absorbs 80% of any losses on the acquired loans. The remaining increase in International Banking impaired loans was attributable primarily to the Caribbean region.

Scotia Capital's impaired loans decreased by $210 million, attributable primarily to the U.S. portfolio.

Net impaired loans, after deducting the specific allowance for credit losses, were $3,044 million as at October 31, 2010, an increase of $481 million from a year ago.

As shown in Chart 13, net impaired loans as a percentage of loans and acceptances were 1.04% as at October 31, 2010, compared to 0.93% a year ago.

Portfolio review

Canadian Banking

The overall credit quality of the consumer portfolio in Canada was stable year over year. Reportable delinquency decreased 12 basis points to 1.59%. The specific provision for credit losses in the Canadian retail portfolio was $574 million, up $30 million or 6% from last year. The specific provision for credit losses as a percentage of average loans was 0.32%, compared to 0.33% last year.

Gross impaired loans in the retail portfolio were in line with last year, increasing by 1% or $6 million. Portfolio quality continued to benefit from high secured lending, with 92% of total retail loans being secured by an underlying asset such as a house or an automobile. This high level of secured lending reflects the growth in Scotia Total Equity Plan, where all products, including lines of credit and credit cards, are secured by residential real estate. Currently, 65% of the ScotiaLine line of credit and ScotiaLine Visa portfolios are secured.

The specific provision for credit losses in the Canadian commercial loan portfolio was $139 million, down $12 million or 8% from last year. Gross impaired loans increased by $39 million to $341 million.

International Banking

Retail credit quality stabilized in most regions with the exception of the Caribbean, where economic conditions declined during the year. Gross retail impaired loans increased by $444 million to $1,575 million during the year with 55% of the increase attributable to the acquisition of R-G Premier Bank of Puerto Rico and the remaining portion related to mortgage portfolios in the Caribbean, Mexico and Chile.

Specific provisions for credit losses in the retail portfolio declined to $502 million from $523 million last year, with lower provisions in Peru somewhat offset by higher provisions in the Caribbean. Total reported delinquency increased 38 basis points year over year to 9.04%, primarily related to mortgage portfolios in the Caribbean region. Delinquency improved year over year in Peru and Chile.

In commercial banking, gross impaired loans were $1,339 million, an increase of $203 million over the prior year as increases in the Caribbean and in Puerto Rico, the latter attributable to the recent acquisition, more than offset reductions in other regions.

Specific provisions for credit losses in the commercial portfolio were $114 million in 2010 versus $54 million in 2009. The increase was attributable to higher provisions in the Caribbean and lower levels of reversals and recoveries in Peru, partially offset by lower provisions in Chile and in the Asia/Pacific regions.

Scotia Capital

Scotia Capital experienced net recoveries of $6 million in 2010, primarily in Canada and the U.S., versus specific provisions of $301 million in 2009.

Gross impaired loans in Scotia Capital declined by $210 million in 2010 to $291 million. Most of the decline was attributable to the U.S. portfolio, which decreased by $229 million year over year to $179 million. The Canadian portfolio declined by $27 million to $60 million, while the Europe portfolio increased by $46 million to $52 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 88 and 90). Chart 16 shows loans and acceptances by geography. Ontario represents the largest Canadian exposure, at 36% of the total. Latin America has 8% of the total exposure and the U. S. has 6%.

Chart 17 shows loans and acceptances by type of borrower. Excluding loans to households, the largest industry exposures were in financial services, 6.6%; real estate, 3.6%; and wholesale and retail, 3.5%.

The Bank actively monitors industry and country concentrations. The North American automotive industry, forestry, hotel, gaming 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.

Sovereign credit risk

As a result of the Bank's broad international operations, the Bank has sovereign credit risk exposure to a number of countries. The Bank actively manages this sovereign risk, including the use of risk limits calibrated to the credit worthiness of the sovereign exposure. The Bank's exposure to certain European countries that have come under recent focus is not significant, with no non-trading sovereign risk exposure to Greece, Portugal or Spain as at October 31, 2010. The Bank had $142 million non-trading Irish sovereign exposure in the form of central bank deposits arising from regulatory reserve requirements to support the Bank's operations in Ireland as at October 31, 2010. Net trading securities exposures to these countries was negligible as at October 31, 2010.

With respect to Irish banks, the Bank had exposures of $255 million as at October 31, 2010, primarily in the form of securities. The unrealized loss on these securities was $28 million (pre tax) as at October 31, 2010, and was reported in Other Comprehensive Income.

Other credit risk

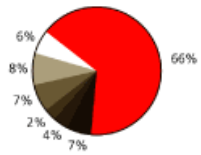
There has been stabilization in the automotive sector as reflected by the reversal of the balance of the sectoral allowance. There were no significant changes in the Bank's automotive industry exposure and consumer auto-based securities.

Risk mitigation

To mitigate exposures in its performing corporate portfolios, the Bank uses loan sales and credit derivatives. In 2010, loan sales totaled $192 million, compared to $500 million in 2009. The largest volume of loan sales in 2010 related to loans in the real estate industry.

C16 Well diversified in Canada and internationally...

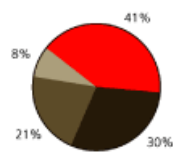
loans & acceptances, September 2010



66% Canada
7% United States
4% Mexico
2% Europe
7% Caribbean
8% Latin America
6% Other

C17 ...and in household and business lending

loans & acceptances



41% Residential
30% Business
21% Personal
8% Financial & government

At October 31, 2010, credit derivatives used to mitigate exposures in the portfolios totaled $61 million (notional amount), compared to $236 million at October 31, 2009. The industries with significant protection purchased include the financial services and utilities sectors.

The current annualized cost (excluding mark-to-market adjustments) of the credit derivatives outstanding at October 31, 2010, was $0.1 million compared to $0.6 million in 2009.

Outlook

Overall, the provision for credit losses is expected to remain in line with 2010 as the global economies show modest economic improvement. Canadian Banking retail provisions are expected to improve modestly, while growth in International Banking's retail portfolio should result in provisions in line with current levels. Provisions in the corporate and commercial portfolios are expected to have lower gross provisions, but will not benefit from as many recoveries as in 2010.

Fourth quarter review

Q4 2010 vs Q4 2009

Net Income

Net income was $1,092 million in the fourth quarter, a substantial increase of $190 million or 21% over the same quarter last year and the second highest quarterly net income ever. The increase was driven by positive contributions from recent acquisitions, higher net interest income and other income, and lower provision for credit losses, partly offset by higher expenses. The impact of foreign currency translation compared to the same quarter a year ago was not material.

Total revenue

Total revenue (on a taxable equivalent basis) was $4,012 million this quarter, an increase of $204 million or 5%.

Net interest income

Net interest income (on a taxable equivalent basis) was a record $2,313 million, an increase of $141 million or 7%. The increase in net interest income was mainly from growth in earning assets of $32 billion or 7%, comprised of residential mortgages, reverse repos and deposits with banks, as the margin was relatively flat compared to the fourth quarter last year.

The Bank's net interest margin was 1.75% in the fourth quarter, comparable to 1.74% in the same quarter last year. Wider spreads in the Canadian floating rate portfolio, a positive impact from changes in the fair value of instruments used for asset/liability management purposes and higher earnings from associated corporations were offset by volume growth in low spread assets.

Other income

Other income was $1,699 million in the fourth quarter, $63 million or 4% higher than last year. The increase was primarily from higher securitization revenues, the contribution from the acquisition of R-G Premier Bank of Puerto Rico, growth in mutual fund revenues from a significant increase in assets under management and higher net gains on securities.

This was partly offset by lower credit and underwriting fees and reduced trading revenues.

Provision for credit losses

The provision for credit losses was $254 million this quarter, comprised of $294 million in specific provisions and a $40 million reduction in the general allowance. The total provision was down $166 million from the same period last year, reflecting lower provisions across all business lines and the reduced general allowance.

The provision for credit losses was $174 million in Canadian Banking, down from $190 million in the same quarter last year. The decrease was mainly due to lower retail provisions in credit cards and the indirect automotive portfolio, somewhat offset by higher provisions in personal lines of credit. Commercial provisions were in line with the same period last year.

International Banking's provision for credit losses was $128 million in the fourth quarter, compared to $167 million in the same period last year. Higher retail provisions in the Caribbean and Mexico were more than offset by lower retail provisions in Peru and lower commercial provisions across most regions, particularly in Chile and Asia. The provision for credit losses was not affected this quarter by the acquisition of R-G Premier Bank of Puerto Rico, as all credit losses recorded at the acquisition date were included in the determination of fair value. Going forward, the Federal Deposit Insurance Corporation (FDIC) will absorb 80% of the losses on the acquired loans.

Scotia Capital experienced a net recovery of $8 million in the fourth quarter, an improvement from net provisions of $63 million in the fourth quarter of last year. The net recovery in this quarter relates mainly to reversals and recoveries in the U.S. portfolio.

Total net impaired loans, after deducting the allowance for specific credit losses, were $3,044 million as at October 31, 2010, an increase of $481 million from a year ago. This increase was attributable primarily to the acquisition of R-G Premier Bank of Puerto Rico whose impaired loans are recorded at fair value on the date of acquisition. As a result, gross and net impaired loans at October 31 include $553 million related to the acquisition.

The general allowance for credit losses was $1,410 million as at October 31, 2010, a decrease of $40 million from last year. Factors contributing to this change include improved credit quality and, to a lesser extent, a stronger Canadian dollar.

Non-interest expenses and productivity

Non-interest expenses were $2,183 million in the fourth quarter, an increase of $119 million or 6% from the same quarter last year. Recent acquisitions accounted for approximately $30 million of this growth. The increase was mainly in salaries, reflecting annual pay increases, branch expansion and recent acquisitions, as well as higher performance-based and stock-based compensation. Technology and advertising expenses also rose, due to projects and initiatives to drive revenue growth. These were partly offset by lower loyalty reward point costs.

The productivity ratio was 54.4% in the fourth quarter, an increase of 20 basis points from last year.

Taxes

The Bank's effective tax rate was 25.9%, compared to 25.7% reported for the same period last year. This marginal increase was due primarily to proportionately higher income in high tax rate jurisdictions partially offset by a reduction in the statutory tax rate in Canada and lower writedowns of future tax assets.

Q4 2010 vs Q3 2010

Net Income

Net income was $1,092 million for the fourth quarter, a $30 million increase from the previous quarter. The increase was driven by positive contributions from recent acquisitions, higher net interest income and other income, and lower provision for credit losses, partly offset by higher expenses. The negative impact of foreign currency translation was not material in this period.

Total revenue

Total revenue (on a taxable equivalent basis) of $4,012 million this quarter was an increase of $158 million or 4% above last quarter.

Net interest income

Net interest income (on a taxable equivalent basis) of $2,313 million, was up $70 million or 3% from the previous quarter. This increase came from a wider margin, as earning assets fell by $7 billion.

The Bank's net interest margin was 1.75%, 7 basis points wider than the third quarter. The increase was a result of lower volumes of low spread deposits with banks, wider spreads in the Canadian floating rate portfolio, a positive impact from changes in the fair value of instruments used for asset/liability management purposes and higher earnings from associated corporations. These items more than offset the impact of higher volumes of non-earning assets.

Other income

Other income of $1,699 million in the fourth quarter was up $88 million or 6%. The increase was mainly from stronger securitization revenues, higher revenues in Chile and contribution from the acquisition of R-G Premier Bank of Puerto Rico, and improvements in the fair value of non-trading financial instruments. In addition, trading revenues were stronger reflecting improved performance in Scotia Capital, particularly the energy, fixed income and foreign exchange units. This was partly offset by much lower net gains on securities and lower mutual fund revenues.

Provision for credit losses

The provision for credit losses of $254 million this quarter was down $22 million from last quarter. Quarter-over-quarter changes in provisions were mixed, with moderate increases in Canadian Banking more than offset by lower provisions in International Banking and Scotia Capital, and the reduction in general allowance.

The provision for credit losses of $174 million in Canadian Banking was up from $163 million in the previous quarter. Retail provisions were slightly lower, particularly relating to the indirect automotive portfolio, while commercial provisions were somewhat higher than last quarter.

International Banking's provision for credit losses was $128 million in the fourth quarter, compared to $138 million last quarter. Higher retail provisions in the Caribbean were more than offset by lower commercial provisions across most regions.

Scotia Capital experienced a net recovery of $8 million in the fourth quarter, compared to a net recovery of $25 million in the previous quarter, which included the reversal of the remaining auto sectoral allowance of $18 million. The net recovery in this quarter relates to reversals and recoveries mainly in the U.S. portfolio.

Total net impaired loans, after deducting the allowance for specific credit losses, were $3,044 million as at October 31, 2010, an increase of $446 million from last quarter. This increase was primarily attributable to the R-G Premier Bank of Puerto Rico acquisition, as the preliminary purchase price allocation was recorded in the fourth quarter. The impaired loans are recorded at fair value. As a result, gross and net impaired loans at October 31, 2010 include $553 million relating to this acquisition. The purchase price allocation had not been reflected in the third quarter.

The general allowance for credit losses was $1,410 million as at October 31, 2010, down $40 million from last quarter, due primarily to improved credit quality.

Non-interest expenses and productivity

Quarter over quarter, non-interest expenses were up $160 million or 8%, due mainly to higher performance-based compensation in line with exceeding performance targets. There was also a higher level of investment in customer acquisition and revenue growth through increased expenditures on advertising and business development, as well as higher spending on technology.

The productivity ratio was 54.4% in the fourth quarter, a 190 basis points increase from the prior quarter.

Taxes

The Bank's effective tax rate was 25.9%, compared to 26.8% last quarter. The decrease from last quarter was due primarily to lower future tax

adjustments partially offset by proportionately higher income in high tax rate jurisdictions.

Summary of quarterly results

The Bank experienced four quarters of strong performance during a time of continued volatility and a sluggish global recovery. The Canadian dollar continued to strengthen throughout the year, almost reaching par by year end. This had a negative impact on whole year results.

Net interest income was relatively consistent throughout the year, and rose somewhat in the final quarter of the year. Average loan volumes grew in the latter part of the year due to acquisitions.

The Bank's net interest margin showed slight improvement in the first quarter, with declines in the following six months. In the final quarter of the year the margin widened and was higher than the last eight quarters. Canadian Banking's margin declined during the year, as short-term wholesale rates rose in 2010. International Banking's margin was impacted by changes in the fair value of financial instruments, rising in the first quarter, falling in the second and then widening in the final two quarters. Spreads in Scotia Capital's corporate lending portfolios widened slightly during the year.

Other income reached record levels in the first two quarters of 2010, declining somewhat in the third quarter and climbing again to end the year. Financial markets presented more opportunities for fixed income and equity trading in the early part of the year. The level of net gains on securities was impacted by the timing of write downs on available-for-sale securities and changes in the fair value of financial instruments. Securitization revenues varied over the year depending on the funding needs of the Bank.

The trend in loan losses reflected the gradual improvements in the current economy, with continuing signs of recovery as the year progressed.

Non-interest expenses declined in the first and second quarters and then increased in the second half of the year partly due to acquisitions. The final quarter reflected finalization of performance-driven compensation, growth initiatives and project spending. Overall, the Bank's productivity level was a record low in 2010.

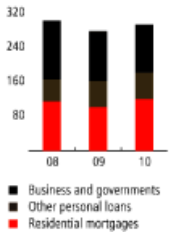
The effective tax rate ranged between 34% and 26% reflecting different levels of income earned in higher tax jurisdictions and changes in the valuation of future tax assets.

An eight quarter trend in net income and other selected information is provided on page 97.

GROUP FINANCIAL CONDITION

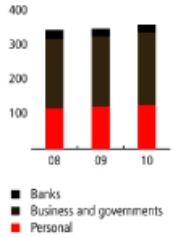
C18 Loan portfolio

loans & acceptances, $ billions, as at October 31



C19 Deposits

$ billions, as at October 31



Balance sheet

Assets

The Bank's total assets at October 31, 2010 were $527 billion, up $30 billion from last year. Excluding the negative impact of foreign currency translation total assets were up $41 billion or 8%.

Cash resources grew by $3 billion, primarily from interest bearing deposits with banks. Securities purchased under resale agreements increased by $10 billion.

Securities

Total securities were down $1 billion year over year. Excluding the negative impact of foreign currency translation total securities increased by $1 billion.

Trading securities rose by $7 billion due mainly to higher holdings of U.S. and other foreign government debt and Canadian equities.

There was a decline in available-for-sale securities of $8 billion from reduced holdings of government and corporate bonds and mortgage-backed securities.

Equity accounted investments increased by $1,123 million due mainly to an additional investment in Thanachart Bank to finance that entity's acquisition of Siam City Bank.

As at October 31, 2010, the unrealized gain on available-for-sale securities, after the impact of qualifying hedges is taken into account, was $1,189 million, an increase of $361 million from last year. The increase was due mainly to changes in interest rates that increased values of Canadian government debt and mortgage-backed securities created and retained by the Bank. Increases in the values of corporate bonds and equity securities were also driven by an improvement in capital markets. These were partially offset by realized gains on the sale of foreign government bonds.

Loans

The Bank's loan portfolio increased $18 billion from last year, or $22 billion or 8% excluding the negative impact of foreign currency translation.

In retail lending, residential mortgages increased $19 billion, with growth of $15 billion in Canadian Banking and $4 billion in International Banking. The latter was due primarily to the acquisition of R-G Premier Bank of Puerto Rico. Personal loans rose by $2 billion due mainly to growth in Canadian Banking.

Business and government loans decreased $3 billion from the negative impact of foreign currency translation.

T14 Condensed balance sheet

As at October 31 ($ billions)	**2010**	2009	2008	2007	2006
Assets					
Cash resources	**$ 46.0**	$ 43.3	$ 37.3	$ 29.2	$ 23.4
Securities	**116.6**	117.3	88.0	88.8	95.5
Securities purchased under resale agreements	**27.9**	17.8	19.5	22.5	25.7
Loans	**284.2**	266.3	288.7	227.2	202.8
Other	**52.0**	51.8	74.1	43.8	31.6
Total assets	**$ 526.7**	$ 496.5	$ 507.6	$ 411.5	$ 379.0

Liabilities and shareholders' equity					
Deposits	**$ 361.7**	$ 350.4	$ 346.6	$ 288.5	$ 263.9
Obligations related to securities sold under repurchase agreements	**40.3**	36.6	36.5	28.1	33.5
Other liabilities	**90.7**	78.3	98.0	73.9	61.0
Subordinated debentures	**5.9**	5.9	4.4	1.7	2.3
Capital instrument liabilities	**0.5**	0.5	0.5	0.5	0.8
Total liabilities	**499.1**	471.7	486.0	392.7	361.5
Shareholders' equity	**27.6**	24.8	21.6	18.8	17.5
Total liabilities and shareholders' equity	**$ 526.7**	$ 496.5	$ 507.6	$ 411.5	$ 379.0

Liabilities

Total liabilities were $499 billion as at October 31, 2010, up $27 billion from last year. Excluding the negative impact of foreign currency translation, total liabilities rose $38 billion or 8%.

Deposits

Total deposits increased by $11 billion, net of negative foreign currency translation of $9 billion. Business and government deposits grew by $7 billion, mainly in the U.S. and Canada. The increase includes the issuance of US$5 billion in covered bonds that are backed by residential mortgages through the Bank's recently launched Covered Bond Program. Personal deposits increased by $5 billion, primarily from growth in high interest savings accounts in Canada and the acquisition of R-G Premier Bank of Puerto Rico. Deposits by banks decreased by $1 billion in 2010.

Other Liabilities

Obligations related to securities sold short and obligations related to securities sold under repurchase agreements grew by $7 billion and $4 billion, respectively. Derivative instrument liabilities increased by $3 billion. Other liabilities increased by $4 billion, due mainly to the FDIC deposit note liability of $3 billion that was part of the acquisition of R-G Premier Bank of Puerto Rico. These increases were partially offset by a decrease in acceptances, as well as the corresponding receivable from customers, of $2 billion.

Shareholders' equity

Total shareholders' equity increased $2,859 million from last year. This was driven by internal capital generation of $2,015 million. The Bank issued $804 million common shares through the Dividend Reinvestment Program, the Employee Share Purchase Plan and the exercise of options. Preferred shares of $265 million were also issued. Partially offsetting the growth was an increase of $251 million in accumulated other comprehensive loss. This arose from a $591 million increase in unrealized foreign exchanges losses from the strengthening of the Canadian dollar, partially offset by an improvement in the unrealized net gains on available-for-sale securities and cash flow hedges.

Outlook

The Bank expects moderate asset growth in its business lines in 2011. This reflects uneven economic growth globally, particularly in the developed economies.

Subsequent Events

Acquisitions of DundeeWealth Inc.

On November 22, 2010, the Bank announced an agreement to make an offer for all the issued and outstanding shares (other than Series 1 preference shares) of DundeeWealth Inc. (DundeeWealth). The Bank currently owns 18 per cent of DundeeWealth, (TSX: DW) which is a Canadian owned, independent wealth management company that currently oversees $78.5 billion in assets under management, assets under administration and bank deposits.

The transaction is in line with the Bank's commitment to build its wealth management presence in Canada and aligns with the Bank's global wealth management strategy. It introduces significant synergy and value enhancement opportunities and increases the Bank's exposure to fee business and strengthens its ability to pursue global wealth opportunities.

As of the date the transaction was announced, the value of the offer to DundeeWealth shareholders was $21 per common share which results in an approximate cost of the transaction of $2.3 billion. For each DundeeWealth common share, the Bank will offer 0.2497 of its common shares and, at the election of each shareholder, either $5.00 in cash or 0.2 of its $25.00, 3.70% five year rate reset preferred shares. Prior to closing, DundeeWealth shareholders will also receive a special distribution of $2.00 per share in cash as well as an interest in Dundee Capital Markets, with an approximate value of $0.50 per DundeeWealth share, which DundeeWealth will spin out to its shareholders in connection with the transaction. The transaction will result in the issuance of approximately 32 million common shares (value of $1.7 billion) and up to $639 million of preferred shares.

Dundee Corporation, the largest shareholder of DundeeWealth with 48 per cent of the issued and outstanding shares, has irrevocably agreed to tender its shares to the offer, subject to obtaining the approval of its shareholders. The controlling shareholder of Dundee Corporation has irrevocably agreed to vote its shares in favour of the sale.

The offer is subject to customary conditions, including the receipt of all necessary regulatory and other approvals. The offer is not subject to a minimum tender condition. However, as a result of Dundee Corporation's commitment to tender, on completion of the offer, the Bank will own at least 67% of DundeeWealth. After completion of the offer, the Bank expects to proceed with the acquisition of the balance of the shares of DundeeWealth. The transaction is expected to be completed in early 2011.

The transaction meets the Bank's stated acquisition criteria. Based on the Bank's forecasts and estimates, the transaction is expected to be accretive to earnings after the first year. There is no material impact on regulatory capital ratios.

Redemption of capital instrument

On November 26, 2010, the Bank announced BNS Capital Trust's intention to redeem all issued and outstanding Scotiabank Trust Securities — Series 2000-1 on December 31, 2010, the redemption date.

Capital management

Overview

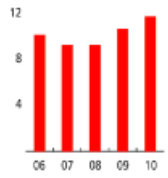
Scotiabank is committed to maintaining a solid capital base to support the risks associated with its diversified businesses. Strong capital levels contribute to safety for the Bank's customers, foster investor confidence and support strong credit ratings. It also allows the Bank to take advantage of 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.

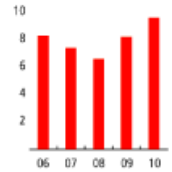
C20 Tier 1 capital

%, as at October 31



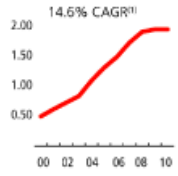
C21 Tangible common equity

%, as at October 31



C22 Dividend growth

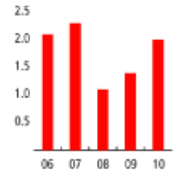
dollars per share



(1) Compound annual growth rate (CAGR)

C23 Internally generated capital

$ billions, for years ended October 31



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 64. 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 strategy, identified changes in its operating environment or changes in its risk profile.

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

The Bank has a comprehensive risk management framework to ensure that the risks taken while conducting its business activities are consistent with its risk appetite, and that there is an appropriate balance between risk and return. Refer to the Risk Management section on page 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, refer to Chart 23 for an illustration. This is augmented by the issuance of common shares, preferred shares, Tier 1 innovative instruments and Tier 2 subordinated debentures, 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-selling activities to existing customers, adding new products and enhancing sales productivity, or through acquisitions. All major initiatives to deploy capital are subject to rigorous analysis, validation of business case assumptions and evaluation of expected benefits. Key criteria include impact on earnings per share,

T15 Regulatory capital (1)

As at October 31 ($ millions)	Basel II 2010	Basel II 2009	Basel II 2008	Basel I 2007	Basel I 2006
Tier 1 capital					
Common shareholders' equity (2)	**$23,199**	$20,945	$20,197	$16,477	$16,947
Innovative capital instruments	**3,400**	3,400	2,750	2,750	3,000
Non-cumulative preferred shares	**3,975**	3,710	2,860	1,635	600
Non-controlling interest in subsidiaries	**579**	554	502	497	435
Less: Goodwill	**(3,050)**	(2,908)	(2,273)	(1,134)	(873)
Other capital items (3)	**(2,769)**	(2,051)	(773)	—	—
	25,334	23,650	23,263	20,225	20,109
Tier 2 capital					
Subordinated debentures (4)	**5,790**	5,833	4,227	1,452	2,046
Trust subordinated notes	**1,000**	1,000	1,000	1,000	—
Eligible amounts of general allowance (5)	**574**	570	534	1,298	1,307
Net unrealized equity gains (6)	**176**	6	—	298	—
	7,540	7,409	5,761	4,048	3,353
Less: other capital deductions (7)	**(3,275)**	(2,471)	(1,177)	(1,292)	(476)
Total capital	**$29,599**	$28,588	$27,847	$22,981	$22,986
Risk-weighted assets (1)($ billions)					
Credit risk	**180.5**	187.8	214.5	208.3	192.0
Market risk	**10.5**	11.4	15.5	10.0	5.0
Operational risk	**24.0**	22.4	20.6	—	—
Total risk-weighted assets	**$ 215.0**	$ 221.6	$ 250.6	$ 218.3	$ 197.0
Capital ratios (1)					
Tier 1 capital ratio	**11.8%**	10.7%	9.3%	9.3%	10.2%
Total capital ratio	**13.8%**	12.9%	11.1%	10.5%	11.7%
Assets to capital multiple	**17.0**	16.6	18.0	18.2	17.1

(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 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.

T16 Changes in regulatory capital (1)

For the fiscal years ($ millions)	Basel II 2010	Basel II 2009	Basel II 2008	Basel I 2007	Basel I 2006
Total capital, beginning of year	**$ 28,588**	$ 27,847	$22,981	$22,986	$21,532
Internally generated capital					
Net income	**4,239**	3,547	3,140	4,045	3,579
Preferred and common share dividends	**(2,224)**	(2,176)	(2,003)	(1,771)	(1,513)
	2,015	1,371	1,137	2,274	2,066
External financing					
Subordinated debentures (2)	**(43)**	1,606	2,775	(594)	(374)
Trust subordinated notes	**—**	—	—	1,000	—
Preferred shares	**265**	850	1,225	1,035	—
Innovative capital instruments	**—**	650	—	(250)	750
Common shares and contributed surplus	**829**	1,117	263	141	108
Purchase of shares — premium on redemption	**—**	—	(37)	(586)	(324)
	1,051	4,223	4,226	746	160
Other					
Net after-tax unrealized gains/losses on available-for-sale equity securities	**170**	201	(493)	298	—
Net unrealized foreign exchange translation gains (losses)	**(590)**	(1,736)	2,368	(2,228)	(360)
Non-controlling interest in subsidiaries	**24**	52	5	62	129

Other(3)	**(1,659)**	(3,370)	(2,377)	(1,157)	(541)
	(2,055)	(4,853)	(497)	(3,025)	(772)
Total capital generated (used)	**1,011**	741	4,866	(5)	1,454
Total capital, end of year	**$ 29,599**	$ 28,588	$27,847	$22,981	$22,986

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

(2) Net of amortization.

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

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 and remains consistent with international standards set by the Bank for International Settlements (BIS).

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

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

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

- *Credit Risk*: There are two main methods for computing credit risk: 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 remaining portfolios for application of AIRB in the future.
- *Market Risk*: The Bank uses both internal models and standardized approaches to calculate market risk capital. 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 trading books in the industry during 2007-2009. One of the key changes is the introduction of a Stressed Value at Risk (VaR) measure that will lead to an increase in market risk capital. BIS has also introduced an Incremental Risk Charge, to capture default and migration risk in debt portfolios over a one year period, at a 99.9% confidence level. In addition, securitized products in the trading book will receive the same capital charge as in the banking book, unless they are in a correlation trading portfolio that meets a number of conditions. During 2010, the Basel Committee clarified that these new measures will become effective in fiscal 2011. The Bank is in the process of preparing the necessary changes in systems, processes and assessing the impact on the required capital levels.
- *Operational Risk*: 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 $25.3 billion, an increase of $1.7 billion over last year primarily due to:

- growth in retained earnings of $2.0 billion;
- capital issuance of $829 million through the Dividend and Share Purchase Plan and employee share-ownership and option plans; and
- the issuance of $265 million in non-cumulative preferred shares.

T17 Selected capital management activity

For the fiscal years ($ millions)	2010	2009	2008
Dividends			
Common	**$ 2,023**	$ 1,990	$ 1,896
Preferred	**201**	186	107
Common shares issued (1)(2)	**804**	1,117	266
Repurchase of common shares — normal course issuer bid (2)	**—**	—	(40)
Preferred shares issued (3)	**265**	850	1,225
Subordinated debentures issued (4)	**—**	2,000	3,144
Repurchase and redemption of subordinated debentures (4)	**(11)**	(359)	(691)
Issuance of trust subordinated notes and trust securities (5)	**—**	650	—

(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 15 of the Consolidated Financial Statements.

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

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

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

These were partially offset by:

- capital deductions of $0.8 billion, largely relating to the Bank's increased investment in Thanachart Bank and;
- an increase in cumulative unrealized foreign currency translation losses of $0.6 billion, net of hedges and related taxes, due to the strengthening of the Canadian dollar.

Over the past five years, the Bank's level of internal capital generation has been consistently strong. The Bank has generated $8.9 billion of internal capital, notwithstanding an increase in dividends of 65% during this period.

Tier 2 capital

Tier 2 capital decreased by $0.7 billion to $4.3 billion in 2010, due to an increase in capital deductions from the Bank's additional investment in Thanachart Bank.

Risk-weighted assets

Risk-weighted assets decreased by $6.6 billion over the prior year to $215 billion. This decline was primarily due to the impact of a stronger Canadian dollar on foreign currency denominated assets and a reduction in non-retail credit exposures, partly offset by growth in the retail portfolio.

Regulatory capital ratios

In 2010, both of the Bank's regulatory capital ratios remained strong as a result of prudent capital management and consistent earnings. Tier 1 and Total capital ratios as at year end were 11.8% and 13.8%. These ratios continued to be well in excess of OSFI's minimum capital ratios of 7% and 10% and were strong by international standards.

In addition to the regulatory capital ratios, banks are also subject to a maximum leverage test, the assets to capital multiple (ACM). 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, 2010 the Bank's ACM of 17:1 was well within the regulatory thresholds.

Tangible common equity ratio

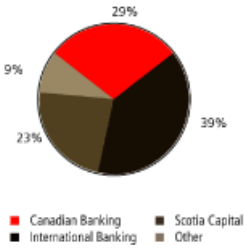
Tangible common equity (TCE) is generally considered to be an important measure of a bank's capital strength, and is often used by rating agencies and investors in their assessment of the quality of a bank's capital position. The Bank's definition of TCE comprises total common shareholders' equity plus 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 9.6% up a significant 1.4% from 8.2% a year ago.

Economic capital

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

- *Credit risk* which measures the risk that a borrower or counterparty will fail to honour its financial or contractual obligations to the Bank. Measurement is based on the Bank's internal credit risk ratings for derivatives, corporate or commercial loans, and credit scoring for retail loans. It is also based on the Bank's actual experience with recoveries and takes into account differences in term to maturity, probabilities of default, expected severity of loss in the event of default, and the diversification benefits of certain portfolios.

C24 Total economic capital by business line
as at October 31, 2010



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. 46
Mortgage-backed securities p. 50
Montreal Accord Asset-Backed Commercial Paper (ABCP) p. 50
Collateralized debt obligations and collateralized loan obligations p. 50
Exposure to monoline insurers p. 51

- *Market risk* which is the risk of loss from changes in market prices including interest rates, credit spreads, equity prices, foreign exchange rates, and commodity prices, the correlations among them, and their levels of volatility. Exposure is measured based on the internal VaR models used in the trading book; the VaR on the Bank's structural interest rate risk, structural foreign exchange risk, and equity market risk; and embedded options risk.
- *Operational risk* which is the risk of loss, whether direct or indirect, to which the Bank is exposed due to external events, human error, or the inadequacy or failure of processes, procedures, systems or controls. Measurement is based on the distribution of the Bank's actual losses, supplemented with external loss data where needed.
- *Other risk* includes additional risks for which Economic Capital is attributed, such as business risk, goodwill, significant investments, insurance risk and real estate risk.

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

Changing Regulatory Landscape

Basel III

In November 2010 the G20 leaders approved certain significant reforms proposed by the Basel Committee on Banking Supervision. The reforms include a number of changes to the existing capital rules and the introduction of a global liquidity standard. These new global standards, referred to as 'Basel III'

T18 Shares and other capital instruments
As at October 31

Share data	Amount ($ millions)	Dividend	Coupon (%)	Number outstanding (000s)
Common shares(1)	$ 5,750	$ 0.49	—	1,042,913
Preferred shares Series 12(2)	$ 300	$0.328125	5.25%	12,000
Preferred shares Series 13(2)	300	0.300000	4.80	12,000
Preferred shares Series 14(2)	345	0.281250	4.50	13,800
Preferred shares Series 15(2)	345	0.281250	4.50	13,800
Preferred shares Series 16(2)	345	0.328125	5.25	13,800
Preferred shares Series 17(2)	230	0.350000	5.60	9,200
Preferred shares Series 18(2)(3)(4)	345	0.312500	5.00	13,800
Preferred shares Series 20(2)(3)(5)	350	0.312500	5.00	14,000
Preferred shares Series 22(2)(3)(6)	300	0.312500	5.00	12,000
Preferred shares Series 24(2)(3)(7)	250	0.390600	6.25	10,000
Preferred shares Series 26(2)(3)(8)	325	0.390625	6.25	13,000
Preferred shares Series 28(2)(3)(9)	275	0.390625	6.25	11,000
Preferred shares Series 30(2)(3)(10)	265	0.240625	3.85	10,600

Trust securities	Amount ($ millions)	Distribution	Yield (%)	Number outstanding (000s)
Scotiabank Trust Securities – Series 2000-1 issued by BNS Capital Trust(11)(12)	$ 500	$ 36.55	7.310%	500
Scotiabank Trust Securities – Series 2002-1 issued by Scotiabank Capital Trust(12)(13)	750	33.13	6.626	750
Scotiabank Trust Securities – Series 2003-1 issued by Scotiabank Capital Trust(12)(13)	750	31.41	6.282	750
Scotiabank Trust Securities – Series 2006-1 issued by Scotiabank Capital Trust(12)(13)	750	28.25	5.650	750
Scotiabank Tier 1 Securities – Series 2009-1 issued by Scotiabank Tier 1 Trust(12)(13)	650	39.01	7.802	650

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

Options				Number outstanding (000s)
Outstanding options granted under the Stock Option Plans to purchase common shares(1)(15)	—	—	—	21,079

(1) Dividends on common shares are paid quarterly. As at November 17, 2010, the number of outstanding common shares and options was 1,042,960 and 21,032, respectively. The number outstanding for the other securities disclosed in this table was unchanged.

(2) These shares are entitled to non-cumulative preferential cash dividends payable quarterly.

(3) These preferred shares have conversion features (refer to Note 14 of the Consolidated Financial Statements for further details).

(4) Dividends, if and when declared, are for the initial five-year period ending on April 25, 2013. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 2.05%, multiplied by $25.00.

(5) Dividends, if and when declared, are for the initial five-year period ending on October 25, 2013. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 1.70%, multiplied by $25.00.

(6) Dividends, if and when declared, are for the initial five-year period ending on January 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 1.88%, multiplied by $25.00.

(7) Dividends, if and when declared, are for the initial five-year period ending on January 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 3.84%, multiplied by $25.00.

(8) Dividends, if and when declared, are the initial five-year period ending on April 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 4.14%, multiplied by $25.00.

(9) Dividends, if and when declared, during the initial five-year period ending on April 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 4.46%, multiplied by $25.00.

(10) The initial dividend was paid on July 28, 2010 in an amount of $0.2822 per share. Dividends, if and when declared, are for the initial five-year period ending on April 25, 2015. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 1.00%, multiplied by $25.00.

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

(12) Each security is entitled to receive non-cumulative fixed cash distributions payable semi-annually (refer to Note 13 of the Consolidated Financial Statements for further details).

(13) Reported in deposits on the Consolidated Balance Sheet.

(14) Holders are entitled to receive interest semi-annually until October 31, 2012 (refer to Note 13 of the Consolidated Financial Statements for further details).

(15) Included are 16,383 stock options with tandem stock appreciation right (SAR) features.

aim to strengthen the financial system by improving the quality, consistency and transparency of the capital base to better absorb losses and promote a more resilient banking sector.

Basel III requires increased capital requirements, including higher minimum common equity, introduces additional capital buffers and requires all existing and new capital deductions to be taken from common equity. The focus of the new rules is high quality capital and therefore there is greater emphasis on common equity and a more restrictive definition of other qualifying capital instruments. The new requirements introduce an internationally harmonized leverage ratio, an expansion of OSFI's existing Asset to Capital Multiple, to contain build-up of excessive leverage. The new regulations contain transitional arrangements to enable banks to meet the new standards while supporting the global economic recovery. The Bank has performed extensive scenario analyses and projections and is satisfied that it will meet the capital and liquidity requirements as they are implemented.

Dividends

The strong earnings and capital position of the Bank allowed the quarterly dividend to be maintained at 49 cents in 2010. Dividends have risen at a compound annual rate of 15% over the past 10 years.

Share data and other capital instruments

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

Credit ratings

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

Outlook

The Bank will maintain its strong capital position. Capital will continue to be prudently managed to support organic growth initiatives, selective acquisitions and evolving regulatory changes.

Off-balance sheet arrangements

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

Variable interest entities (VIEs)

Off-balance sheet arrangements with VIEs include:

- VIEs that are used to provide a wide range of services to customers. These include VIEs established to allow clients to securitize their financial assets while facilitating cost-efficient financing, and 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, 2010, total consolidated assets related to VIEs were $9.2 billion, compared to $2.6 billion at the end of 2009. The increase is due to consolidation of the Scotia Covered Bond Trust which was created to facilitate the Bank's covered bond program.

The Bank earned fees of $42 million and $64 million in 2010 and 2009, 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 125 and 126.

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

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

Multi-seller conduits sponsored by the Bank

The Bank sponsors three multi-seller conduits, two of which are Canadian-based and one in the United States. The Bank earned commercial paper issuance fees, program management fees, liquidity fees and other fees from these multi-seller conduits, which totaled $40 million in 2010, compared to $63 million in the prior year.

The multi-seller conduits purchase high-quality financial assets and finance these assets through the issuance of highly rated commercial paper. For assets purchased, there are supporting backstop liquidity facilities that are generally equal to 102% of the assets purchased or committed to

be purchased. The primary purpose of the backstop liquidity facility is to provide an alternative source of financing in the event the conduit is unable to access the commercial paper market.

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 $1.4 billion as at October 31, 2010 (October 31, 2009 — $1.8 billion). The year-over-year decrease was due to repayments and asset amortization. As at October 31, 2010, total commercial paper outstanding for the Canadian-based conduits was $0.9 billion (October 31, 2009 — $1.6 billion) and the Bank held less than 1% of the total commercial paper issued by these conduits. Table 19 presents a summary of assets purchased and held by the Bank's two Canadian multi-seller conduits as at October 31, 2010 and 2009, 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 21% of the funded assets were externally rated AAA as at October 31, 2010, 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, 2010. While 68% 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 $6.5 billion as at October 31, 2010 (October 31, 2009 — $7.5 billion). The year over year decline was from a general reduction in client business ($0.6 billion) and the impact of foreign currency translation. As at October 31, 2010, total commercial paper outstanding for the U.S.-based conduit was $3.1 billion (October 31, 2009 — $4.2 billion) of which none was held by the Bank.

A significant portion of the conduit's assets have been structured to receive credit enhancements from the sellers, including overcollateralization protection and cash reserve accounts. Each asset purchased by the conduit has a deal-

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

	2010			2009		
As at October 31 ($ millions)	Funded assets(1)	Unfunded commitments	Total exposure(2)	Funded assets(1)	Unfunded commitments	Total exposure(2)
Auto loans/leases	$ 331	$ 305	$ 636	$ 505	$ 138	$ 643
Equipment loans	339	7	346	723	43	766
Trade receivables	206	122	328	165	59	224
Canadian residential mortgages	19	—	19	67	1	68
Retirement savings plan loans	49	2	51	92	2	94
Total(3)	$ 944	$ 436	$ 1,380	$ 1,552	$ 243	$ 1,795

(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.

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

	2010			2009		
As at October 31 ($ millions)	Funded assets(1)	Unfunded commitments	Total exposure(2)	Funded assets(1)	Unfunded commitments	Total exposure(2)
Credit card/consumer receivables	$ 22	$ 45	$ 67	$ 253	$ 45	$ 298
Auto loans/leases	1,198	902	2,100	1,501	620	2,121
Trade receivables	798	2,476	3,274	1,049	2,712	3,761
Loans to closed-end mutual funds	367	7	374	115	73	188
Diversified asset-backed securities	622	12	634	741	15	756
Corporate loans(3)	69	23	92	348	46	394
Total(4)	$ 3,076	$ 3,465	$ 6,541	$ 4,007	$ 3,511	$ 7,518

(1) Funded assets are reflected at original cost. The fair value of these assets as at October 31, 2010 was estimated to be $2.7 billion (October 31, 2009 – $3.6 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.

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, 2010 and 2009, by underlying exposure.

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

As at October 31, 2010, approximately 76% of the conduit's funded assets were rated A or higher, either 33% external or 43% internal based on the Bank's rating program. Substantially all of the assets held in this conduit were rated investment grade as at October 31, 2010. While 50% of the total funded assets have final maturities falling within five years, the weighted average repayment period, based on expected cash flows, approximates 1.4 years.

During fiscal 2010, there were no events that required a reassessment of the primary beneficiary of this conduit.

Funding vehicles

The Bank uses special purpose entities (SPEs) to facilitate the cost-efficient financing of its operations. The Bank has three such SPEs that facilitate the issuance of certain regulatory capital instruments of the Bank. These are Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust. These SPEs are not consolidated on the Bank's balance sheet, as the Bank is not the primary beneficiary. Scotiabank Trust Securities, Scotiabank Tier 1 Securities and Scotiabank Trust Subordinated Notes issued by the trusts are not reported on the Consolidated Balance Sheet, but qualify as regulatory capital. The deposit notes issued by the Bank to Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust are reported in deposits. Total deposits recorded by the Bank as at October 31, 2010 from these trusts were $4 billion (October 31, 2009 — $4 billion). The Bank recorded interest expense of $243 million on these deposits in 2010 (2009 – $216 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 $23 million as at October 31, 2010 (October 31, 2009 – $307 million) including the credit risk amounts relating to derivative contracts with these VIEs. The decrease from 2009 is due primarily to early maturity and termination of certain entities.

Securitizations

The Bank securitizes a portion of its residential mortgages and personal loans by transferring the assets on a serviced basis to trusts. Residential mortgage securitizations are principally conducted through the Bank's participation in the Canadian Government's Canada Mortgage Bond (CMB) program. If certain requirements are met, these transfers are treated as sales, and the transferred assets are removed from the Consolidated Balance Sheet which are discussed in Note 1 to the Consolidated Financial Statements on pages 115 to 120. These securitizations enable the Bank to access alternative and more efficient funding sources, and manage liquidity and other risks. The Bank does not provide liquidity facilities to the CMB program, as such, the Bank is not exposed to significant liquidity risks in connection with these off-balance sheet arrangements.

The outstanding amount of off-balance sheet securitized mortgages was $16 billion as at October 31, 2010, compared to $17.5 billion last year. The activity in 2010 was primarily from ongoing sales through the CMB program. Last year's activity included the Bank's participation in the Government of Canada Insured Mortgage Purchase Program.

The amount of off-balance sheet securitized personal loans was $10 million as at October 31, 2010, compared to $199 million last year. The decrease was due to the maturity of the revolving credit facility of a securitization trust.

Subsequent to the transfer of assets, the Bank may retain interests in securities issued by the trusts, may make payments to the trusts under certain limited circumstances, maintains relationships with the underlying customers, and provides administrative services to the trusts. Additional information on the commitments to the trusts is disclosed in Note 24 to the Consolidated Financial Statements on pages 143 to 145.

The Bank recorded securitization revenues of $124 million in 2010, compared to $409 million in 2009. This decrease was mostly due to lower securitization volumes.

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 124.

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, 2010, these amounted to $20.5 billion, compared to $21.9 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 activity, 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 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, 2010, these credit enhancements amounted to $669 million, compared to $760 million last year. Refer to the liquidity discussions under VIEs beginning on page 46;

- 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, 2010, these commitments amounted to $104 billion, relatively in line with last year. Approximately half of these commitments are short-term in nature, with remaining terms to maturity of less than one year.

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

Fees from the Bank's guarantees and loan commitment arrangements, recorded as credit fees in Other income in the Consolidated Statement of Income, were $426 million in 2010, compared to $386 million in the prior year. Detailed information on guarantees and loan commitments is disclosed in Note 24 to the Consolidated Financial Statements on pages 143 to 145.

Financial instruments

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

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

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

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

All changes in the fair value of derivatives are recorded in the Consolidated Statement of Income, other than those designated as cash flow and net investment hedges which flow through other comprehensive income. The Bank's accounting policies for derivatives and hedging activities are further described in Note 1 to the Consolidated Financial Statements (see pages 115 to 120).

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 accounted investments are recorded in other income — net gains (losses) on securities, other than trading.

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

A discussion of the Bank's risk management policies and practices can be found in the Risk Management section on pages 62 to 77. In addition, Note 25 to the Consolidated Financial Statements on pages 145 to 153 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 152. For trading activities, the table on page 153 discloses the average one-day Value at Risk by risk factor. For derivatives, based on the Bank's maturity profile of derivative instruments, only 10% (2009 — 12%) had a term to maturity greater than five years.

Note 28 to the Consolidated Financial Statements (see pages 156 to 160) provides details about derivatives used in trading and non-trading activities, including notional amounts, remaining term to maturity, credit risk and fair values.

The fair value of the Bank's financial instruments is provided in Note 26 to the Consolidated Financial Statements (see pages 154 to 155) along with a description of how these amounts were determined.

The fair value of the Bank's financial instruments was unfavorable when compared to their carrying value by $420 million as at October 31, 2010 (October 31, 2009 — $2,152 million). This difference relates to loan assets, deposit liabilities, subordinated debentures and capital instrument liabilities. The year-over-year change in the deficit of fair value over book value arose mainly from changes in interest rates and credit spreads. Fair value estimates are based on market conditions as at October 31, 2010, and may not be reflective of future fair values. Further information on how fair values are estimated is contained in the section on Critical accounting estimates on pages 78 to 82.

Disclosures specific to certain financial instruments designated as held for trading under the fair value option can be found in Note 27 to the Consolidated Financial Statements (see page 156). These designations were made primarily to avoid an accounting mismatch between two instruments, or to better reflect how the performance of a specific portfolio is evaluated by the Bank.

Selected credit instruments

Mortgage-backed securities

Non-trading portfolio

Total mortgage-backed securities held as available-for-sale securities represent approximately 4% of the Bank's total assets as at October 31, 2010 and are shown below in Table 21. 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, 2010 and are shown in Table 21.

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.

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.

Collateralized debt obligations and collateralized loan obligations

Non-trading portfolio

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

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

As at October 31, 2010, the carrying value of cash-based CDOs and CLOs reported as loans on the Bank's Consolidated Balance Sheet was $943 million (October 31, 2009 — $1,059 million). The fair value of these CDOs and CLOs was $623 million (October 31, 2009 — $688 million). None of these cash-based CDOs and CLOs are classified as impaired. Substantially all of the referenced assets of the Bank's CDOs and CLOs are corporate exposures, with no U.S. mortgage-backed securities.

The Bank's remaining exposure to synthetic CDOs and CLOs was $185 million as at October 31, 2010 (October 31, 2009 — $323 million). During the year, the Bank recorded a pre-tax gain of $85 million in net income for changes in fair value of synthetic CDOs and CLOs (2009 — pre-tax gain of $60 million). The

T21 Mortgage-backed securities

As at October 31 Carrying value ($ millions)	2010 Non-trading portfolio	2010 Trading portfolio	2009 Non-trading portfolio	2009 Trading portfolio
Canadian NHA mortgage-backed securities (1)	**$ 18,370**	**$ 416**	$ 21,287	$ 253
Commercial mortgage-backed securities	**10 (2)**	**28 (3)**	4 (2)	44 (3)
Other residential mortgage-backed securities	**201**	**—**	93	—
Total	**$ 18,581**	**$ 444**	$ 21,384	$ 297

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

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

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

change in fair value of the synthetic CDOs and CLOs was mainly driven by the tightening of credit spreads in the current and prior year and the maturity of certain CDOs and CLOs in 2010.

The aggregate CDO and CLO portfolios are well diversified, with an average individual CDO and CLO holding of $12 million, and no single industry exceeding 12% of the referenced portfolio on a weighted average basis. Based on their carrying values, these CDOs and CLOs have a weighted average rating of BBB. More than 71% of their investments are senior tranches with subordination of 10% or more, and 6% of the investments are in equity tranches.

Based on positions held at October 31, 2010, a 50 basis point widening of relevant credit spreads would result in a pre-tax decrease of approximately $5 million in net income.

Trading portfolio

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

The decrease in the notional amount of the CDO portfolio is mainly due to trades that were unwound with counterparties during the year. The decrease in the fair value of the CDO portfolio is due to the reduced portfolio size and improved market conditions. Based on positions held at October 31, 2010, a 50 basis point widening of relevant credit spreads in this portfolio would result in a pre-tax increase of approximately $11 million in net income.

Over 57% of the Bank's credit exposure to CDO swap counterparties is to entities which are externally or internally rated investment grade equivalent. The referenced assets underlying the trading book CDOs are substantially all corporate exposures, with no mortgage-backed securities.

Exposure to monoline insurers

The Bank has insignificant direct exposure to monoline insurers. The Bank has indirect exposures of $0.9 billion (October 31, 2009 — $1.3 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 $0.1 billion (October 31, 2009 — $0.4 billion) were primarily to U.S. municipalities and states. All 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 $0.8 billion (October 31, 2009 — $0.9 billion). These exposures were primarily composed of $0.6 billion (October 31, 2009 — $0.7 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 47 and 48 in the section on Multi-seller conduits sponsored by the Bank). As at October 31, 2010, the two monoline insurers were rated non-investment grade by the external rating agencies.

Other

As at October 31, 2010, the Bank has insignificant exposure to highly leveraged loans awaiting syndication, auction-rate securities, Alt-A type loans and investments in structured investment vehicles.

T22 Collateralized debt obligations (CDOs)

Trading portfolio

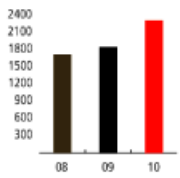
	2010		2009	
As at October 31 Outstanding ($ millions)	**Notional Amount**	**Positive/ (negative) fair value**	Notional Amount	Positive/ (negative) fair value
CDOs — sold protection	**$ 2,890**	**$ (498)**	$ 6,000	$ (1,620)
CDOs — purchased protection	**$ 2,719**	**$ 491**	$ 5,625	$ 1,657



CANADIAN BANKING

Canadian Banking had a record year in 2010, with net income of $2,315 million, an increase of $464 million or 25% over last year. This was driven by substantial growth in wealth management revenues, retail mortgages, personal lending and deposits, and a wider interest margin. Non-interest expenses were well maintained, up 5%.

C25 Canadian Banking net income
$ millions

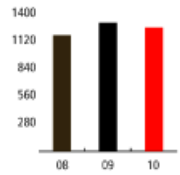




INTERNATIONAL BANKING

International Banking reported net income of $1,262 million, a decrease of 4% year-over-year, largely due to the impact of a 10% stronger Canadian dollar. Underlying growth resulted from contributions from recent strategic acquisitions, particularly in Puerto Rico and Thailand, and higher earnings in Asia, Mexico and Chile. Slow economic recovery in the Caribbean moderated growth in that region although loan volumes and core deposits are trending upwards.

C26 International Banking net income
$ millions

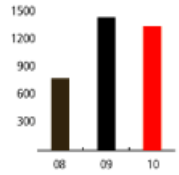




SCOTIA CAPITAL

Scotia Capital reported net income of $1,350 million in 2010, 7% below last year's record earnings as market conditions in 2009 led to exceptional trading results. These strong results were maintained through the first part of 2010, but returned to more normalized levels to close out the year. As well, corporate loan volumes continued to decline. Partly offsetting, was a substantial improvement in the provisions for credit losses with net recoveries reported for 2010.

C27 Scotia Capital net income
$ millions



On October 1, 2010, Global Wealth Management was established as a fourth business line, combining our wealth management and insurance businesses in Canada and internationally. Refer to page 60 for details on the Bank's four business lines.

T23 2010 financial performance

($ millions)	Canadian Banking	International Banking	Scotia Capital	Other[1]	Total
Net interest income[2]	$ 5,191	$ 3,755	$ 1,093	$ (1,418)	**$ 8,621**
Other income	2,626	1,696	2,086	476	**6,884**
Provision for credit losses	706	616	(43)	(40)	**1,239**
Non-interest expenses	3,926	2,931	1,195	130	**8,182**
Income taxes/non-controlling interest[2]	870	642	677	(344)	**1,845**
Net income	$ 2,315	$ 1,262	$ 1,350	$ (688)	**$ 4,239**
Return on equity[3] (%)	27.0%	11.6%	18.6%	N/A	**18.3%**
Average earning assets ($ billions)[3]	$ 204	$ 87	$ 164	$ 61	**$ 516**

(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

2010 ACHIEVEMENTS

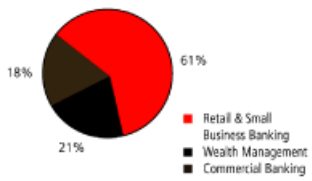
- Launched the first phase of Let the Saving Begin, a new program that has inspired thousands of Canadians to establish automatic saving habits when they use their debit and credit payment cards, by enrolling in "Bank the Rest", setting aside a regular amount each month or opening a Momentum Visa to earn cashback on their purchases.
- Introduced a robust mobile banking solution that is the first to offer SMS/Text banking and both Domestic and International person-to-person transfers through Interac and Western Union.
- Implemented an automated sales reporting system in branches that delivers operational efficiencies and time savings so that sales officers can provide additional customers with excellent service and advice.
- Introduced Scotiabank's EcoLiving Program to help Canadian homeowners discover what green renovation options are available and how they can save money by reducing their energy bills and taking full advantage of the available government rebates.
- Launched *ScotiaLife* Accidental Hospitalization Insurance, an expansion of ScotiaLife's Life & Health product offering. Holders of this insurance will receive a daily cash benefit for each day they are hospitalized due to a covered accident.
- Expanded our branch network by nine branches to capitalize on high-potential market opportunities across the country.
- Enhanced the Scotiabank StartRight Program for Newcomers to Canada website. It's now is available in eight languages — English, French, Traditional Chinese, Simplified Chinese, Spanish, Punjabi, Arabic and Farsi.
- Launched the *Total Wealth Credit Solution*TM, an unique Private Banking lending platform that allows high net worth clients to combine their investment portfolios with other assets to secure a single, highly flexible line of credit. This fully-integrated wealth management platform enables clients to maximize access to financing to take advantage of investment opportunities and is ideal for business builders and entrepreneurs who value simplified, convenient access to credit.
- Scotiabank's Canadian mutual fund business continued its positive momentum through fiscal 2010. Scotiabank placed number one among banks for total net sales. Scotia INNOVA Portfolios has been a strong force behind this performance as it has surpassed $1.7 billion in assets under management.
- SCENE, the joint venture loyalty program with Cineplex has surpassed 2.6 million members and more than one million of those are Scotiabank customers.

T24 Canadian Banking financial performance

($ millions)	2010	2009	2008
Net interest income (1)	**$ 5,191**	$ 4,785	$ 4,324
Other income	**2,626**	2,279	2,174
Provision for credit losses	**706**	702	399
Non-interest expenses	**3,926**	3,757	3,632
Income taxes/non-controlling interest (1)	**870**	754	743
Net income	**$ 2,315**	$ 1,851	$ 1,724
Key ratios			
Return on economic equity	**27.0%**	22.3%	35.6%
Productivity (1)	**50.2%**	53.2%	55.9%
Net interest margin (1)	**2.54%**	2.49%	2.46%
PCL as a percentage of loans and acceptances	**0.35%**	0.37%	0.23%
Selected balance sheet data (average balances)			
Earning assets	**204,077**	192,262	175,464
Deposits	**163,747**	143,891	127,615
Economic equity	**8,358**	8,049	4,764

(1) Taxable equivalent basis.

C28 Canadian Banking total revenue
as at October 31, 2010



Financial performance

Canadian Banking reported net income of $2,315 million in 2010, $464 million or 25% higher than last year. Return on economic equity was 27.0% versus 22.3% last year. Retail and small business banking, commercial banking and wealth management all generated solid performances.

Assets and liabilities

Average assets before securitization rose $12 billion or 6% in 2010. This was led by substantial growth in residential mortgages (before securitization) of $10 billion or 8%, which resulted in market share growth of 39 basis points versus the other major banks. Personal lines of credit were up $3 billion or 12% year over year. Average deposits grew $20 billion or 14%. This includes $10 billion of broker-sourced deposits transferred from group treasury in the first quarter of this year. In addition, strong growth was recorded in current accounts and high interest savings accounts. Assets under administration grew 13% to $155 billion in 2010, through stronger sales and marketing initiatives.

Revenues

Total revenues were $7,817 million, up $753 million or 11% from last year. Net interest income increased $406 million to $5,191 million, due to strong volume growth in both assets and deposits. The margin increased by five basis points to 2.54%, reflecting higher spreads on assets due to re-pricing and lower

wholesale funding and liquidity costs. Partly offsetting was the impact of prime/BA spread compression and lower spreads on deposits due to intense competition. Other income for the year was $2,626 million, including growth of $347 million or 15% mainly from increases in wealth management revenues, new sales and market improvements, and higher commercial banking revenues.

Retail & Small Business Banking

Total revenues were $4,805 million, up $402 million or 9% from last year. Net interest income rose by $375 million or 11% due to growth in assets and deposits and a higher margin. Other income rose $26 million or 3% mainly in transaction-based fees and higher insurance revenues. Partly offsetting were a decrease in ABM fees and lower personal service charges reflecting a growing trend toward electronic payments.

Commercial Banking

Total revenues rose $98 million or 6% to $1,624 million in 2010. Net interest income grew 2% from last year mainly from a substantial growth in deposits entirely in current accounts. Partly offsetting was a lower margin and reduced asset volumes, reflecting the slower business climate in 2010. Year over year, other income was up $79 million or 24% to $407 million.

Wealth Management

Total revenues were up $253 million or 22% to $1,388 million. There was growth in multiple businesses, particularly in mutual funds, full service brokerage and private client group, as well as contributions from associated corporations. This growth was driven by new sales and improved market conditions.

Non-interest expenses

Non-interest expenses rose $169 million or 5% to $3,926 million in 2010. The increase was due mainly to increased investment in growth initiatives, higher stock-based and performance-based compensation, pension and benefits costs, advertising costs relating to "Let the Saving Begin" and other marketing campaigns, and the impact of the new harmonized sales tax in certain Canadian provinces.

Credit quality

The provision for credit losses in Canadian Banking was $706 million in 2010, comprised of $713 million in specific provisions and a $7 million reversal this year of the sectoral allowance established for the automotive industry. Specific provisions in 2010 represent an increase of $18 million from $695 million last year, with moderately higher retail provisions somewhat offset by moderately lower commercial provisions.

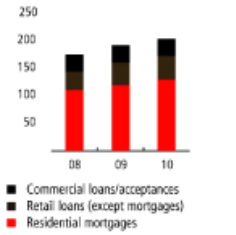
C29 Total revenue by sub-segment

$ millions



C30 Average loans and acceptances

$ billions



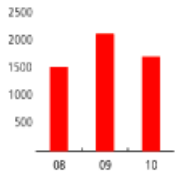
C31 Wealth management asset growth

$ billions, as at October 31



C32 Wealth management mutual fund sales

$ millions



International Banking

2010 ACHIEVEMENTS

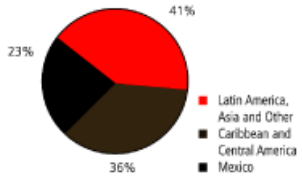
- Revenue growth programs implemented to:
  - Improve the capacity of our sales forces;
  - Enhance the customer experience through upgraded contact centres and new mobile banking capabilities;
  - Develop and promote new products for insurance and wealth management.
- Credit risk management improved by implementing industry-leading retail account management and pricing platforms in key markets.
- Added 88 branches, upgraded contact centre in Mexico and began construction of a new contact centre in Peru.
- Expanded presence in Puerto Rico by acquiring R-G Premier Bank of Puerto Rico in an FDIC-assisted transaction.
- Further investment in Thailand, where an affiliate, Thanachart Bank, acquired Siam City Bank and is now the third largest bank in Bangkok and the fifth largest bank in the country.
- Entered Colombia through the acquisition of Royal Bank of Scotland's local wholesale operations and agreed to acquire Dresdner Bank's wholesale banking operations in Brazil.
- Recognized for excellence:
  - *Global Finance* magazine named Scotiabank Costa Rica, Scotiabank Jamaica and Scotiabank Peru as the top foreign exchange providers in their respective countries.
  - *Trade Finance* recognized Scotiabank as the Best Trade Bank in Central America and the Caribbean for the second year in a row. The magazine also named Scotiabank the Best International Trade Bank in Peru.
  - *Global Finance* magazine named Scotiabank the Best Consumer Internet Bank in 20 Caribbean countries.
  - The Bank's contact centre in the Dominican Republic was recognized as World Class in a study that benchmarked the top 450 Contact Centres in North America.

T25 International Banking financial performance

($ millions)	2010	2009	2008
Net interest income (1)	**$ 3,755**	$ 3,773	$ 3,315
Other income	**1,696**	1,480	1,282
Provision for credit losses	**616**	577	236
Non-interest expenses	**2,931**	2,960	2,634
Income taxes/non-controlling interest (1)	**642**	401	541
Net income	**$ 1,262**	$ 1,315	$ 1,186
Key ratios			
Return on economic equity	**11.6%**	12.5%	15.5%
Productivity (1)	**53.8%**	56.3%	57.3%
Net interest margin (1)	**4.32%**	4.21%	4.17%
PCL as a percentage of loans and acceptances	**0.99%**	0.90%	0.44%
Selected balance sheet data (average balances)			
Earning assets	**86,842**	89,528	79,403
Deposits	**45,920**	49,810	45,438
Economic equity	**10,283**	9,968	7,353

(1) Taxable equivalent basis.

C33 Total revenue



Financial performance

International Banking's net income in 2010 was $1,262 million, a decrease of $53 million or 4% from last year. The results were adversely impacted by a stronger Canadian dollar. Excluding this, earnings increased by $76 million or 6% reflecting the favourable impact of acquisitions, partly offset by credit weakness in a few corporate loans as well as a higher effective tax rate. Return on economic equity was 11.6% compared to 12.5% last year.

Assets and liabilities

Average assets decreased $3 billion or 3%. After adjusting for the negative impact of the foreign currency translation and the acquisition of R-G Premier Bank of Puerto Rico, average assets were up 1% over last year. Underlying growth was moderated by slow economic recovery, although the quarterly trend in performing loan volumes showed a steady return to growth compared to declines in 2009. Overall, retail loans increased $1 billion or 4%, mainly from residential mortgages in Mexico and Peru. Commercial loans were down slightly from last year, with modest growth of 4% in Asia more than offset by selective portfolio run-off in Mexico and Chile. Average securities volumes increased $2 billion, due to additional investment in Thanachart Bank in Thailand and growth in Mexico. Under-lying growth in low-cost deposits was strong at 10%, with the Caribbean, Central America and Peru showing double digit growth.

Revenues

Total revenues were $5,451 million in 2010, an increase of $198 million or 4% from last year, despite a $429 million negative impact of foreign currency translation.

Net interest income was $3,755 million in 2010, in line with 2009 despite a $296 million negative impact of foreign currency translation. Underlying net interest income was up $279 million or 7% driven mainly by the acquisition of R-G Premier Bank of Puerto Rico, and higher contributions from associated corporations. The net interest margin was 4.32%, up 11 basis points from last year, partly due to the combined impact of increased retail volumes and wider margins in Mexico and Peru.

Other income increased $216 million or 15% year over year to $1,696 million. The increase reflected the positive impact of higher gains on sales of securities this year and contributions from acquisitions. The year was also marked by strong growth in insurance and wealth management revenues and higher credit fees. These were partly offset by the $133 million negative impact of foreign currency translation.

Caribbean and Central America

Total revenues were $1,973 million in 2010, an increase of $130 million or 7%. The increase resulted from a combination of the R-G Premier Bank of Puerto Rico acquisition, lower write-downs on investments in 2010, and underlying fee income growth of 4%. Adverse foreign exchange translation was partially offsetting.

Net interest income was $1,472 million in 2010, unchanged from 2009. The contribution of the R-G Premier Bank of Puerto Rico acquisition and higher earnings from associated corporations were offset by a negative impact of foreign currency translation. Overall volumes and margins were relatively unchanged from last year.

Other income of $501 million was up a substantial $133 million or 36% from last year. This mainly reflected the inclusion of fee revenue from R-G Premier Bank of Puerto Rico, lower write-downs on securities this year, and higher insurance related revenues. Adverse foreign exchange translation was partly offsetting.

Mexico

Total revenues were $1,239 million in 2010, a nominal decrease of $6 million from last year, due mainly to the negative impact of foreign currency translation. Underlying revenues were up 5% including higher net gains on securities, increased mutual fund revenues and higher loan spreads.

Net interest income was $800 million, a decrease of $20 million from 2009, including negative foreign currency translation of $48 million. Underlying net interest income increased by 3% due to growth in retail asset volumes and spreads, partially offset by lower funding spreads.

Other income was $438 million in 2010, up $14 million from last year, or $36 million excluding the adverse impact of foreign currency translation. Higher insurance, and wealth management revenues and transaction-driven income contributed to the increase. Lower treasury revenue resulted from reduced market volatility in 2010.

Latin America, Asia and Other

Total revenues were $2,239 million in 2010, an increase of $74 million over last year, primarily due to contributions from associated corporations in Asia and higher net gains on securities. Partly offsetting were adverse foreign currency translation, and a loss on the Bank's investment in an affiliate in Venezuela from a significant devaluation of the Venezuelan bolivar.

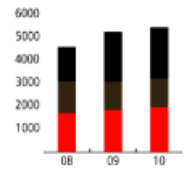
Non-interest expenses

Non-interest expenses were $2,931 million in 2010, down 1% or $29 million from last year, due mainly to the beneficial impact of $185 million from foreign currency translation. Excluding this, expenses were up $156 million, of which $82 million was due to the impact of acquisitions. The remaining growth of 3% was due to higher compensation, premises and technology, advertising and business development costs.

Credit quality

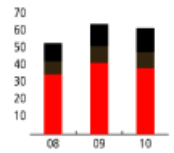
The provision for credit losses in International Banking was $616 million in 2010, an increase of $39 million from last year. Higher provisions in the Caribbean were somewhat offset by lower provisions in Asia, Mexico, and Latin America.

C34 Total revenue by region
$ millions



- Latin America, Asia and Other
- Mexico
- Caribbean and Central America

C35 Average loans and acceptances
$ billions

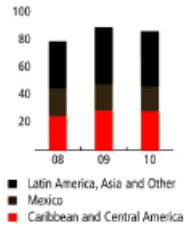


- Average residential mortgages[1]
- Average retail loans (excluding residential mortgages)
- Average business loans and acceptances

(1) Includes securitized mortgages

C36 Average earning assets by region

$ billions



Scotia Capital

2010 ACHIEVEMENTS

- Scotia Capital ranked #1 for Canadian Corporate Debt Underwriting in Bloomberg's League Tables (2009), for the second year in a row.
- Scotia Capital was acknowledged by Global Finance magazine as:
  - Best Infrastructure Bank globally, for the second consecutive year;
  - Best Foreign Exchange Bank in Canada, for the sixth consecutive year; and
  - Best Investment Bank in Canada, for the fourth time in six years.
- For the eighth consecutive year, Scotia Capital's Corporate Derivatives team has been recognized as the best in Canada by an independent third party survey firm.
- For the second year in a row, ScotiaMocatta was acknowledged as "Best Bullion Bank" by the Bombay Bullion Association, a major hub for gold and silver trading in India.
- Notable transactions during the year:
  - Scotia Capital acted as Exclusive Financial Advisor to Red Back Mining Inc. on its merger with Kinross Gold Corporation. Kinross acquired all of the outstanding common shares of Red Back for approximately US$8 billion. The transaction was one of the largest M&A transactions in the gold industry and resulted in the creation of a US$20+ billion pure gold senior producer.
  - Scotia Waterous acted as Exclusive Financial Advisor to Sinopec Corp., the largest petroleum and petrochemicals company in China, on its purchase of a 40% interest in Repsol Brasil, through a share capital increase of US$7.1 billion.

    The alliance created one of Latin America's largest energy companies, valued at US$17.8 billion.

T26 Scotia Capital financial performance

($ millions)	2010	2009	2008
Net interest income(1)	**$ 1,093**	$ 1,427	$ 1,120
Other income	**2,086**	2,138	707
Provision for (recovery of) credit losses	**(43)**	338	(5)
Non-interest expenses	**1,195**	1,072	937
Income taxes(1)	**677**	704	108
Net income	**$ 1,350**	$ 1,451	$ 787
Key ratios			
Return on economic equity	**18.6%**	20.0%	21.5%
Productivity(1)	**37.6%**	30.1%	51.3%
Net interest margin(1)	**0.67%**	0.78%	0.68%
PCL as a percentage of loans and acceptances (2)	**(0.02)%**	0.61%	(0.01)%
Selected balance sheet data (average balances)			
Total assets	**164,083**	183,079	163,664
Earning assets	**139,332**	146,966	140,570
Loans and acceptances	**45,728**	67,257	54,147
Securities purchased under resale agreements	**19,888**	14,123	15,844
Securities	**60,372**	54,973	63,716
Economic equity	**6,980**	7,013	3,571

(1) Taxable equivalent basis.

(2) Corporate Banking only.

C37 Total revenue



Financial performance

Scotia Capital contributed net income of $1,350 million in 2010, 7% lower than $1,451 million reported in 2009 which was a record year. This year's performance represents the second best year ever for Scotia Capital for both revenue and net income. The year-over-year decline in net income was due primarily to lower revenues from market conditions. Further, there were higher expenses for growth initiatives, as well as a

slightly higher effective tax rate. Although total revenues declined 11% when compared to the record levels achieved in 2009, many of the businesses within Global Capital Markets reported their second highest year, which demonstrates the strength of the diversified platform.

Due to improving market conditions, provisions for credit losses declined substantially with a net recovery of $43 million this year. In comparison, the provision for credit losses in the previous year totaled $338 million. Return on economic equity was 18.6% this year, slightly lower than last year as earnings did not reach the record levels of the prior year.

Assets and liabilities

Total average assets were $164 billion, down 10% from last year. This decline was mainly from corporate loans and acceptances which fell by $18 billion across all lending businesses. There was also a decrease of $11 billion in average derivative assets with a corresponding decrease in derivative and other liabilities. These decreases were partly offset by higher securities, loans and other assets to support both client-driven activity and trading opportunities.

Revenues

Total revenues this year of $3,179 million compared to $3,565 million last year. The decline of 11% was primarily due to more normalized business conditions, especially during the latter half of 2010. Overall, revenues in 2010 were strong, the second highest compared to the prior year when record revenues were achieved in both Global Capital Markets and Global Corporate and Investment Banking.

Net interest income fell 23% to $1,093 million, due primarily to a substantial decline in corporate loan volumes. Interest from trading operations also declined.

Other income fell slightly to $2,086 million as higher securities gains were more than offset by lower trading revenues, credit-related fees and investment banking revenues.

Global Corporate and Investment Banking

Total revenue decreased 22% to $1,404 million. Interest income fell 31% due to substantial declines in asset volumes in all lending markets, although portfolio spreads remained stable. Loan origination fees also fell. Other income was down 13% from the prior year due partly to reduced credit fees, including lower acceptance fees in Canada. As well, there were lower investment banking revenues as new issues declined significantly. Advisory fees earned by Scotia Waterous fell moderately compared to last year. These declines were partly offset by higher fair value changes in non-trading financial instruments.

Global Capital Markets

Total revenues increased slightly to a record $1,775 million. Interest income from trading operations declined 11%. However, other income increased 5% primarily reflecting growth in the global fixed income business. The first half of 2010 continued the strong revenue trend which commenced in 2009 but the latter half of the year reflected more normalized business levels; most businesses achieved their second highest level of revenues.

Non-interest expenses

Non-interest expenses were $1,195 million in 2010, an 11% increase from last year, due mainly to higher performance-related compensation partly offset by lower legal provisions. Salaries, technology costs and support costs also increased to assist business growth. Performance-based and stock-based compensation rose $61 million largely reflecting changes in incentive plans in 2009.

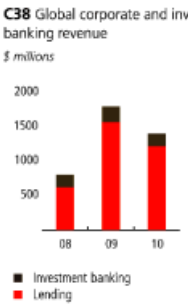
Credit quality

Provisions for credit losses in Scotia Capital reflected a net recovery of $43 million this year, comprised of a net recovery of $6 million in specific provisions and a reversal of the $37 million sectoral provision related to the automotive industry. Last year's amount included $301 million of specific provisions as well as the initial set up of the $37 million sectoral allowance.

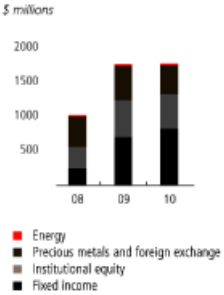
Provision for income taxes

The higher effective tax rate in 2010 reflects a greater proportion of income earned in jurisdictions with higher tax rates.

C38 Global corporate and investment banking revenue

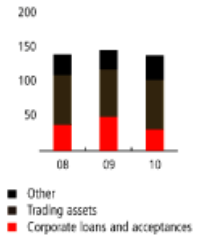


C39 Global capital markets revenue by business line



C40 Composition of average earning assets

$ billions



Other

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

Financial performance

The Other segment had a net loss of $688 million in 2010, compared to a net loss of $1,070 million in 2009.

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 $286 million in 2010, compared to $288 million in 2009.

Revenues

Net interest income was negative $1,418 million this year, compared to negative $1,657 million in 2009. The improvement was due to the transfer of broker-sourced deposits from the Other business segment to Canadian Banking in the first quarter of 2010, and a favourable change in the fair value of financial instruments used for asset/liability management purposes. These were offset in part by a flattening of the money market yield curve that compressed funding spreads.

Other income was $476 million in 2010, compared to $232 million last year. The increase was mainly attributable to a lower level of writedowns on available-for-sale securities, partly offset by reduced securitization revenues.

Non-interest expenses

Non-interest expenses were $130 million in 2010, unchanged from the prior year.

Credit quality

The provision for credit losses in 2010 included a $40 million decrease in the general allowance. This compares to an increase of $127 million in the general allowance in 2009. At the end of 2010, the general allowance totaled $1,410 million.

Income taxes

The provision for income taxes was a credit of $344 million in 2010, a decline of $268 million from the prior year. The reduction in the provision for income taxes was mainly driven by a lower net loss before taxes.

Outlook

Net income is expected to improve in 2011. Net interest income is anticipated to improve due to lower long-term funding costs and an increase in whole year average short-term interest rates used for transfer pricing with the business segments.

T27 Other financial performance

($ millions)	2010	2009	2008
Net interest income(1)	**$ (1,418)**	$ (1,657)	$ (1,185)
Other income	**476**	232	139
Provision for (recovery of) credit losses	**(40)**	127	—
Non-interest expenses	**130**	130	93
Income taxes(1)	**(344)**	(612)	(582)
Net income	**$ (688)**	$ (1,070)	$ (557)

(1) Includes the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes in Canadian Banking, International Banking and Scotia Capital to arrive at the amount reported in the Consolidated Statement of Income (2010 — $286; 2009 — $288; 2008 — $416).

KEY PERFORMANCE INDICATORS FOR ALL BUSINESS LINES

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

- Net income
- Customer loyalty
- Collaboration across business line
- Return on economic equity
- Employee engagement
- Productivity ratio

Looking ahead

CANADIAN BANKING

2011 Priorities

- Continue to invest in deposits and payments businesses.
- Partner with Global Wealth Management to drive revenue growth in mutual funds and other retail products.
- Refine customer value proposition to become a truly customer-centric organization delivering advice and solutions, supported by service excellence.
- Invest in the following enablers to support the strategy and customer value proposition:
  - Optimize distribution channels
  - Achieve operational efficiencies through organizational streamlining, process re-engineering and product/service rationalization.
  - Strengthen MIS infrastructure to better support and manage capital, pricing, risk and customer profitability.
  - Leadership development.

Business profile

Canadian Banking provides a full range of banking and investing services to more than 7.6 million customers across Canada, through a network of 1,024 branches, 2,998 ABMs, as well as telephone, Internet banking and third party channels. Canadian Banking includes two main businesses which are Retail and Small Business Banking and Commercial Banking, a description of each is outlined below:

- Retail and Small Business Banking provides mortgages, loans, credit cards, investments, and day-to-day banking products to individuals and small businesses.
- Commercial Banking delivers a full product suite to medium and large businesses, including banking, cash management, lending and leasing.

Strategy

Canadian Banking will significantly improve its competitive position by achieving superior growth across the deposits and payments businesses, while sustaining the growth of our other core businesses. The business line will support its Global Wealth Management partners by distributing Global Transaction Banking and Wealth Management products. This will be achieved by offering practical advice and solutions tailored to customers financial priorities, supported by an excellent customer experience.

Outlook

Entering 2011, the outlook for the Canadian economy remains uncertain. Asset growth is expected to be somewhat slower than in recent years as consumers retrench. Deposit growth is also expected to moderate as interest rates remain relatively low and funds return to recovering equity markets.

The interest margin will remain under pressure from competition in a slower growth environment, as well as from higher wholesale funding costs due to the full year impact of interest rate increases in 2010. Other income growth will likely be tempered by the environment but opportunities will arise from new products and delivery channels.

Provisions for credit losses are expected to stabilize in 2011.

Expenses remain a management focus but will increase reflecting higher pension costs, the effect of the harmonized sales tax in several provinces, as well as continuing reinvestment in products and services.

INTERNATIONAL BANKING

2011 Priorities

- Retail Banking: Develop a differentiated value proposition across all segments to drive new customer acquisition and cross-sales. Expand multi-channel capabilities, improve sales and service model, and strengthen new product offering and customer contact practices. Expand in the emerging retail and microfinance segments in Peru, Chile, Mexico and Dominican Republic and selectively expand into other high potential markets.
- Corporate and Commercial: Strengthen cross-sell of ancillary products and deepen partnership with Scotia Capital. Increase focus on mid-market segment and efficiency of credit processes.
- Partner with Global Wealth Management to accelerate growth of wealth management and insurance.
- Continue to enhance risk management framework and systems.
- Seek opportunistic acquisitions and investments in existing markets and enter select new markets.

Business profile

International Banking encompasses Scotiabank's retail and commercial banking operations in more than 45 countries outside Canada — an international presence unmatched by our domestic competitors. More than 48,000 employees, including subsidiaries and affiliates, provide a full range of financial services to 11 million customers through a network of over 2,000 branches and offices, 3,686 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. In personal banking, the business line is expanding its sales capacity and multi-channel capabilities, as well as improving the sales and service model and customer contact practices. International Banking is broadening its focus beyond its traditional retail customer base by expanding into the emerging retail segment and partnering with Global Wealth Management to increase wealth management and insurance in international markets.

International Banking is leveraging in-depth local knowledge and expertise from across the Scotiabank Group in areas such as power, mining, oil and gas, and hospitality to deliver unique financial solutions to commercial clients. The business line continues to deepen its partnership with Scotia Capital to build capital market business in Latin America and Asia and to optimize growth opportunities for global clients.

The acquisition strategy is focused primarily on acquiring financial services companies in Latin America and Asia to achieve scale where the Bank has an existing presence and enter new markets on a selective basis.

Outlook

Improved economic conditions and selective acquisitions will support continued growth. Both loans and deposits are expected to increase, which together with continued strong margins, will drive revenue growth. Expenses will continue to be carefully managed while investing in initiatives to improve operational efficiencies and enhance revenue opportunities.

SCOTIA CAPITAL

2011 Priorities

- Grow sustainable revenue in core sectors — Oil and Gas, Mining, Power, Infrastructure, and in specific businesses including Fixed Income, Equities, and Base Metals.
- Execute the reorganization of the Bank's global wholesale activities under Scotia Capital to generate sustainable incremental revenue, particularly through cross-sell of capital markets products to corporate lending clients.
- Enhance client focus to increase market share.
- Continue to prudently manage risks with global oversight and governance.
- Invest in systems and operational infrastructure to generate revenue and enhance efficiency and competitiveness.
- Continue to build leadership capability.

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. and other parts of Latin America. It also provides select products and services to niche markets in Europe and Asia. Since October 1, 2010, this includes wholesale banking products and services in Latin America and Asia-Pacific previously offered through Scotiabank's International Banking business line.

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

Strategy

Scotia Capital's strategy remains focused on achieving sustainable revenue growth and earning strong returns on capital while prudently managing risk.

Scotia Capital's strategic vision: *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.*

A key focus in 2011 will be the successful implementation of the recent reorganization of the Bank's wholesale activities under Scotia Capital. This initiative will help position Scotia Capital for the long term to expand and better capture opportunities in high growth markets, as it leverages the existing Scotia Capital wholesale platform and combines it with International Banking's existing wholesale operations in Latin America and Asia-Pacific. A key objective will be to cross-sell capital markets products and services to lending relationships in these two high potential regions. Scotia Capital will also integrate recent acquisitions in Brazil, Chile and Colombia into our global wholesale platform.

Outlook

The more normalized market conditions experienced in the second half of 2010 are likely to continue, however, Scotia Capital expects to benefit from growth in the businesses and products in which it has invested. Stronger activity in the corporate finance and mergers and acquisitions markets could benefit new issue and advisory fees, as well as provide opportunities for growth in lending volumes.

Loan loss provisions are expected to remain below historical levels but are unlikely to benefit from net recoveries.

Scotia Capital will continue to manage operating costs closely but will invest in the business to provide sustainable revenue growth.

GLOBAL WEALTH MANAGEMENT

2011 Priorities

- Drive diversified organic revenue growth across all business lines.
- Optimize the DundeeWealth opportunity and further explore strategic acquisition opportunities.
- Capitalize on our people, systems, expertise and international reach to accelerate growth.
- Work closely with and build on strong partnerships with Canadian Banking, International Banking and Scotia Capital.

Business profile

Global Wealth Management (GWM) is comprised of wealth management insurance and Global Transaction Banking businesses. This new business line brings together a number of the Bank's global growth platforms to drive revenue growth across multiple geographies and businesses, with a strong global perspective. GWM will collaborate with and strengthen partnership relationships with Canadian Banking, International Banking and Scotia Capital.

Wealth Management

GWM provides a full range of wealth management products and services to mass market, emerging affluent and high net worth clients in Canada, including: full service and on-line brokerage, investment management, private banking, estate and trust and philanthropic services. Institutional clients are served through the Private Client Group.

Internationally, the Bank provides a variety of products and services to the emerging affluent segments including private client services, investment products and offshore brokerage. Operations are concentrated in international locations where the Bank has a strong retail banking footprint, particularly the Caribbean and Latin America. Key centres are located in Mexico, Costa Rica, Panama, Peru, Jamaica, Bahamas and

Thailand.

Insurance

Insurance is provided to retail customers in Canada and internationally. In Canada, the Bank generates revenue from the sale of creditor insurance products sold through distribution neworks and from the distribution of non-creditor related, third-party insurance products.

Internationally, the Bank operates in Mexico, Chile, Peru, El Salvador, Central America and the Caribbean and sells creditor, collateral, home, auto, life, health and ATM insurance. Insurance products are sold through normal bank channels where regulations allow and via brokers in other cases. Non-creditor insurance is sold in Jamaica, El Salvador, Trinidad and the Dominican Republic.

Global Transaction Banking

Global Transaction Banking (GTB) which reports through GWM offers comprehensive business solutions – cash management and payment services, business deposits, and trade services, to the small business, commercial, and corporate customer segments of the Bank's business lines as well as correspondent banking services to other financial institutions globally.

Strategy

GWM is focussed on delivering tailored advice, solutions and an excellent customer services experience by leveraging the Bank's international reach and expertise. GWM will continue to improve its competitive position by building on its existing client service strengths and exploring strategic opportunities as they arise.

Outlook

GWM's new organizational structure will leverage existing global strengths in wealth management, insurance and Global Transaction Banking to drive organic revenue growth. In 2011, this growth will be enhanced by improving market conditions both in Canada and internationally.

The Bank's recent acquisition of DundeeWealth will provide opportunities for driving additional revenue growth by leveraging DundeeWealth's scale and highly complimentary asset management capabilities in the Bank's existing Canadian and international operations. The acquisition also enhances the Bank's presence in the independent advisor channel.

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Bank. Risk management is a strategic priority that is a responsibility shared by all of the Bank's employees. Scotiabank has a strong, disciplined risk management culture. A key aspect of this culture is to be well-diversified across business lines, countries, products, and industries.

Risk management framework

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. 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 that its risk management practices are considered a core strength.

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

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

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



The Bank's strong risk management culture provides the foundation for the framework. The framework is constantly evaluated to ensure that it meets the challenges of a dynamic market. As part of the evaluation process, the Bank places high importance on adherence to regulatory standards and industry best practices.

Risk governance

Effective risk management begins with effective risk governance.

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

The Board of Directors

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

Management

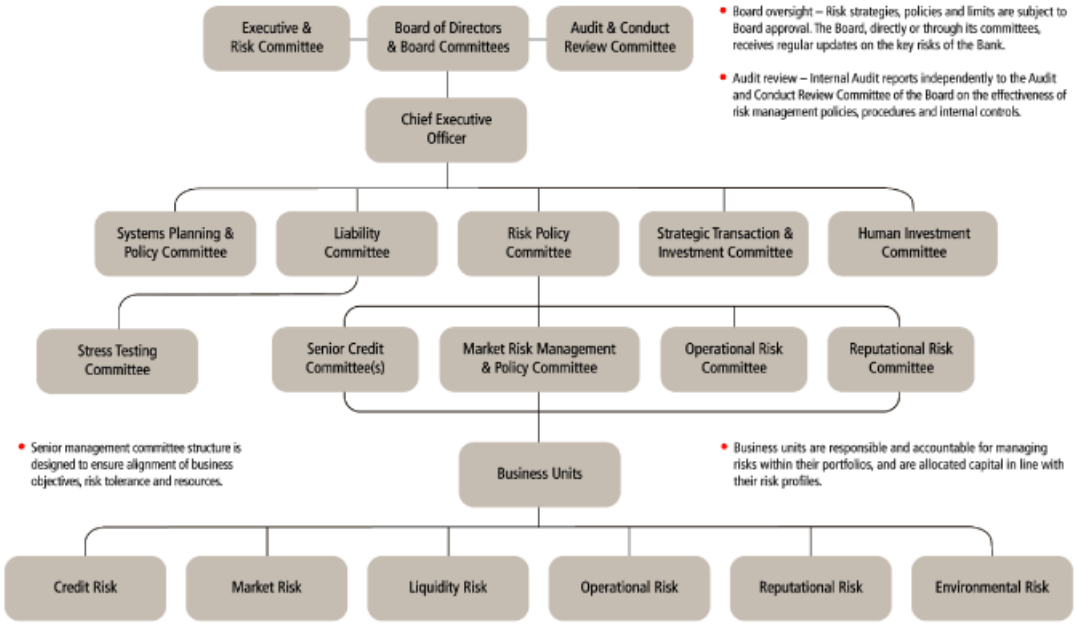
Executive management, and in particular the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), are responsible for risk management under the direct oversight of the Board. The CRO, who oversees the Global Risk Management (GRM) division of the Bank, reports to the CEO but also has direct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

The CEO, CRO, and other senior executives chair the Bank's senior and executive risk management committees. Committee structures and key accountabilities are outlined on page 63.

Global Risk Management (GRM)

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

SCOTIABANK'S RISK GOVERNANCE STRUCTURE



Executive Committees:

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

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

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

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

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

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Risk Management Culture

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

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

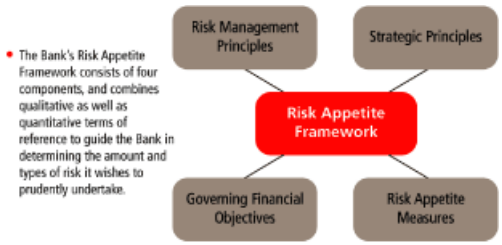
Risk education programs, and documented policies and procedures are jointly available to staff in the Business Lines and Global Risk Management.

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

Risk appetite

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

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



Risk management principles

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

- promotion of a robust risk culture,
- accountability for risk by the business lines,
- independent oversight exercised by Global Risk Management (GRM),
- avoidance of excessive risk concentrations, and
- ensuring risks are clearly understood, measurable, and manageable.

Strategic principles

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

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

Governing financial objectives

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

Risk appetite measures

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

Risk management techniques

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



Strategies, Policies & Limits

Strategies

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

Policies

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

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

Limits

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

Guidelines, Processes and Standards

Guidelines

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

Processes

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

Standards

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

Measurement, Monitoring, and Reporting

Measurement

Tools quantify risk across products and businesses and are used, among other things, to determine risk exposure. GRM is responsible for developing and maintaining an appropriate suite of such tools to support the operations of the various business lines, and for supporting the measurement of economic capital on an enterprise-wide basis. The risk sections explain the application of these tools.

Measurement tools include the use of models and stress testing. Procedures for model development, approval, and on-going review are subject to a formalized policy. However, the Bank considers sound and experienced judgement to be the most effective mitigant against model risk, and avoids over reliance on quantitative risk methodologies and models.

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

Monitoring

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

Reporting

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

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

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 40).
- Pillar 3 enhances public disclosure (both quantitative and qualitative) of specific details of risks being assumed, and how capital and risk are being managed under the Basel II framework.

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

Credit risk

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

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

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

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

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

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

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

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

Risk measures

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

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

(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.

Corporate and commercial

Adjudication

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

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

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

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

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

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

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

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

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

Traded Products

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

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 91% of the credit risk amount arising from the Bank's derivative transactions. Approximately 60% 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, 2010:

- no exposure to a non-investment grade counterparty exceeded $195 million pre-tax;
- no exposure to a corporate counterparty exceeded $197 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.

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

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

(1) Applies to non-retail portfolio.

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

Credit risk and capital

The Bank uses the Advanced Internal Ratings Based (AIRB) approach under Basel II to determine minimum regulatory capital requirements for its domestic, U.S. and European credit portfolios. 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 various sources of uncertainty inherent in historical estimates.

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

Retail

Adjudication

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

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

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

As at Oct. 31, 2010	Exposure at default(3) ($ millions)	Exposure Weighted Average PD (%)(4)	Exposure Weighted Average LGD (%)(5)	Exposure Weighted Average RW (%)(6)
Investment grade(2)	179,892	0.10	27	16
Non-investment grade	38,341	0.78	40	63
Watch list	3,185	23.02	40	205
Default(7)	837	100.00	42	406
Total	**222,255**	**0.92**	**29**	**28**
Total as at Oct. 31, 2009	238,095	1.50	29	31

(1) Excludes securitization exposures.

(2) Includes government guaranteed residential mortgages.

(3) After credit risk mitigation.

(4) PD — Probability of Default.

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

(6) RW — Risk Weight.

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

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

Risk ratings

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

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

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

Canadian retail

The AIRB approach is used 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.

This year, the Bank undertook a review of its parameter methodologies and implemented enhancements to refine risk segmentation by borrowers and products.

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 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 below in Table 31.

International retail

International retail (Scotiabank does not have any U.S. retail branches) credit portfolios follow the Standardized approach and consist of the following components:

- Residential mortgages;
- Qualifying revolving consists of all credit cards and lines of credit;
- 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 creditworthiness of a particular issuer.

Foreign currency risk

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

Equity risk

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

Commodity risk

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

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

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

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

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%

T31 Credit risk assessment of exposures — Retail AIRB portfolio

As at October 31, 2010	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	84,182	0.09	24	5
Low	19,510	0.36	40	15
Medium	23,249	1.18	53	39
High	2,461	8.22	57	94
Very high	998	24.21	89	237
Default[6]	551	100.00	54	—
Total	**130,951**	**1.08**	**33**	**16**
Total as at October 31, 2009	120,439	1.13	30	14

(1) After credit risk mitigation.

(2) PD — Probability of Default.

(3) LGD — Loss Given Default.

(4) RW — Risk Weight

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

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

Risk measurement summary

Value at risk

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

Stress testing

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

Sensitivity analysis and simulation modeling

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

Gap analysis

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

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.

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, 2010. Chart 41 illustrates trends in the one-year gap and shows the Canadian dollar asset gap narrowed to $10.0 billion, while the one-year foreign currency gap transitioned from liability sensitive to an asset sensitive gap of $5.2 billion.

Table 33 shows the after-tax impact of a 100 and 200 basis point shift on annual income and economic value of shareholder's equity. Based on the Bank's interest rate positions at year-end 2010, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income after-tax by approximately $50 million over the next

12-months. During fiscal 2010, this measure ranged between $50 million and $180 million. This same increase in interest rates would result in an after-tax decrease in the present value of the Bank's net assets of approximately $415 million. During fiscal 2010, this measure ranged between $239 million and $459 million.

Foreign currency risk

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

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

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

The Bank is also subject to foreign currency translation risk on the earnings of its foreign operations which are not self-sustaining. The Bank forecasts foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, over a number of future fiscal quarters. The LCO also assesses economic data trends and forecasts to determine if some or all of the estimated future foreign currency revenues and expenses should be hedged. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency options and swaps. Certain of these economic hedges may not qualify for hedge accounting resulting in a potential for a mismatch in the timing of the recognition of economic hedge gains/losses and the underlying foreign earnings translation gains/losses. In accordance with GAAP, foreign currency translation gains and losses from positions in operations that are not self-sustaining are recorded directly in earnings.

As at October 31, 2010, a one per cent increase in the Canadian dollar against all currencies in which the Bank operates, decreases the Bank's before-tax annual earnings by approximately $34 million in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar would increase the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately $199 million as at October 31, 2010, net of hedging.

T32 Interest rate gap

Interest rate sensitivity position(1) As at October 31, 2010 ($ billions)	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	Total
Canadian dollars					
Assets	$ 189.5	$ 23.3	$ 79.4	$ 8.0	$ 300.2
Liabilities	172.2	30.6	84.8	12.6	300.2
Gap	17.3	(7.3)	(5.4)	(4.6)	—
Cumulative gap	17.3	10.0	4.6	—	
Foreign currencies					
Assets	$ 164.0	$ 13.9	$ 25.8	$ 22.8	$ 226.5
Liabilities	156.6	16.1	14.0	39.8	226.5
Gap	7.4	(2.2)	11.8	(17.0)	—
Cumulative gap	7.4	5.2	17.0	—	
Total					
Gap	$ 24.7	$ (9.5)	$ 6.4	$ (21.6)	
Cumulative gap	24.7	15.2	21.6	—	
As at October 31, 2009:					
Gap	$ 37.0	$ (23.2)	$ 5.7	$ (19.5)	
Cumulative gap	37.0	13.8	19.5	—	

(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.

T33 Structural interest sensitivity

As at October 31 ($ millions)	2010 **Economic Value of Shareholders' Equity**	2010 **Annual Income**	2009 Economic Value of Shareholders' Equity	2009 Annual Income
After-Tax Impact of				
100bp increase in rates	**(415)**	**50**	(188)	150
100bp decrease in rates	**411**	**(35)**	173	(178)

After-Tax Impact of

200bp increase in rates	**(829)**	**102**	(349)	306
200bp decrease in rates	**858**	**(80)**	555	(400)

C41 Interest rate gap

$ billions, one-year interest rate gap



Investment portfolio risks

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

Trading activities

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

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

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 2010, the one-day VaR for trading activities averaged $12.5 million, compared to $17.0 million in 2009. The decrease was primarily due to lower interest rate risk together with reduced market volatility. Table 34 shows VaR by risk factor.

Chart 42 shows the distribution of daily trading revenue for fiscal 2010. Trading revenue averaged $5.6 million per day, compared to $5.8 million for 2009. Revenue was positive on more than 88% of trading days during the year, compared to 89% in 2009. During the year, the largest single day loss was $14.6 million which occurred on May 26, 2010, and was lower than the VaR exposure.

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.

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.

T34 One-day VaR by risk factor

	2010				2009			
($ millions)	**Year end**	**Avg**	**High**	**Low**	Year end	Avg	High	Low
Interest rate	**9.0**	**11.7**	**19.0**	**7.3**	15.6	16.3	26.1	10.9
Equities	**3.4**	**5.1**	**14.1**	**2.3**	3.0	4.6	9.3	2.0
Foreign exchange	**0.9**	**1.7**	**4.6**	**0.6**	3.4	2.2	4.7	0.5
Commodities	**1.5**	**2.1**	**5.6**	**0.6**	3.7	3.5	5.6	1.9

Diversification	**(6.3)**	**(8.1)**	**N/A**	**N/A**	(10.5)	(9.6)	N/A	N/A
All-Bank VaR	**8.5**	**12.5**	**19.5**	**7.4**	15.2	17.0	28.9	10.2

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.

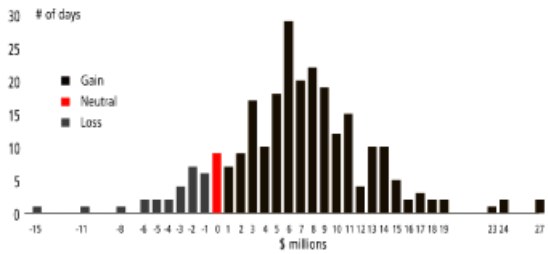
Liquidity risk is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee (LCO) provides senior management oversight of liquidity risk and meets weekly 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.
- 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 behavior and the market value of liquid assets. The Bank also performs industry standard stress tests required by regulators and rating agencies. The stress test results are reviewed at senior levels of the organization and are considered in making liquidity management decisions.
- Contingency planning — the Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event. A contingency plan is maintained both at the parent level as well as for major relevant 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.

C42 Trading revenue distribution[1]
year ended October 31, 2010



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

C43 Daily trading revenue vs. VaR[1]

$ millions, November 1, 2009, to October 31, 2010



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

Liquidity profile

The Bank maintains large holdings of liquid assets to support its operations. These assets generally can be sold or pledged to meet the Banks' obligations. As at October 31, 2010 liquid assets were $148 billion or 28% of total assets, compared to $146 billion or 29% of total assets as at October 31, 2009. The mix of these assets between securities and other liquid assets, including cash and deposits with banks, was 68% and 32%, respectively (October 31, 2009 — 69% and 31%, respectively).

In the course of the Bank's day-to-day activities, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Securities may also be sold under repurchase agreements. As at October 31, 2010, total assets pledged or sold under repurchase agreements were $96 billion, compared to $84 billion as at October 31, 2009. The year over year change was largely due to an increase in assets pledged to secure obligations relating to covered bonds issued by the Bank in 2009. In some over-the-counter derivative contracts, the Bank would be required to post additional collateral in the event its credit rating was downgraded. The Bank maintains access to sufficient collateral to meet its obligations in the event of a downgrade of its ratings by one or more of the rating agencies.

Funding

The Bank ensures that its funding sources are well diversified. Funding source concentrations are regularly monitored and analyzed by type and by industry. The principal sources of funding are capital, core deposits from retail and commercial clients through the Canadian and international branch network, and wholesale funding. The Bank also securitizes mortgages through the Canada Mortgage Bonds program as an alternative source of funding, and for liquidity and asset/liability management purposes. To ensure that the Bank does not place undue reliance on a single entity as a funding source, the Bank maintains a limit on the amount of deposits it will accept from any one entity.

Core funds, represented by capital and core deposits of the Bank's retail and commercial clients, were $256 billion as at October 31, 2010, versus $243 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, 2010, the Bank's core funds represented 49% of total funding, unchanged from last year.

Contractual obligations

Table 36 provides aggregated information about the Bank's contractual obligations as at October 31, 2010, 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 2010 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 2010, the Bank issued approximately $24 billion of senior term funding in the domestic, United States and other markets. The outstanding balance of the Bank's subordinated debentures decreased slightly in 2010 with the repurchase of an existing issue.

T35 Liquidity

As at October 31 ($ millions)	**2010**	2009	2008	2007	2006
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	**$ 484**	$ 1,223	$ 498	$ 502	$ 469
Deposits with other banks	**2,558**	1,371	1,654	4,152	2,445
Securities	**79,086**	81,613	46,558	53,429	53,762
	82,128	84,207	48,710	58,083	56,676
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	**7,150**	6,170	3,064	4,503	3,839
Deposits with other banks	**35,835**	34,513	32,102	20,039	16,623
Securities	**21,654**	19,649	21,298	19,809	20,824
Call and short loans	**1,498**	1,538	1,087	874	5
	66,137	61,870	57,551	45,225	41,291
Total liquid assets					
Cash and deposits with Bank of Canada	**7,634**	7,393	3,562	5,005	4,308
Deposits with other banks	**38,393**	35,884	33,756	24,191	19,068
Securities	**100,740**	101,262	67,856	73,238	74,586
Call and short loans	**1,498**	1,538	1,087	874	5
	$148,265	$146,077	$106,261	$103,308	$97,967
Liquid assets as a % of total assets	**28.2%**	29.4%	20.9%	25.1%	25.8%

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 remained unchanged from last year at $243 million during fiscal 2010. Refer to Note 23 of the 2010 Consolidated Financial Statements.

Two major outsourcing contracts have been entered into by the Bank. The largest is a contract with IBM Canada entered into in 2001 to manage the Bank's domestic computer operations, including data centres, branches, Automated Banking Machines, and desktop computing environment. The contract was expanded in 2005 to include the computer operations for the Caribbean and Mexico. The contract for Canadian operations was renewed in 2007 and is now extended until 2013, co-terminus with, Mexico and Caribbean contracts.

The second is a three-year contract, with two optional five-year renewals, entered into in 2003 with Symcor Inc. to manage the Bank's cheque and bill payment processing, including associated statement and report printing activities across Canada. The final 5-year option has been exercised. These outsourcing contracts are cancellable with notice, including agreed upon fees.

Capital expenditures

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

Total capital expenditures in 2010 are estimated to be $210 million, a decrease of 6% from 2009. The decrease is primarily in Technology, $17 million or 18%, due largely to the completion of a major project to upgrade branch equipment in Canada. This is partially offset by an increase in Real Estate spending of $3 million or 2%.

Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk. It exists in some form in every Bank business and function. Operational risk can not only result in financial loss, but also regulatory sanctions and damage to the Bank's reputation. The Bank is very successful at managing operational risk with a view to safeguarding client assets and preserving shareholder value.

The Bank has developed policies, processes and assessment methodologies to ensure that operational risk is appropriately identified and managed with effective controls. The governing principles of the Bank's operational risk management program include:

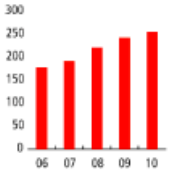
- Accountability in the individual business lines for management and control of the significant operational risks to which they are exposed, reflected with allocation of economic capital to business units.
- An effective organization structure through which there is effective oversight and in which operational risk is managed to an established risk appetite, 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 and Chief Risk Officer which provides consistent, Bank-wide oversight of risk management and includes the Heads of business lines and key control functions;
  - 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;

T36 Contractual obligations

($ millions)	Under 1 year	1-3 years	4-5 years	Over 5 years	Total
Term funding					
Wholesale deposit notes	7,504	12,818	8,275	1,301	**29,898**
Euro medium term notes	2,553	2,004	613	52	**5,222**
Covered bonds	—	2,550	2,554	—	**5,104**
Subordinated debentures	—	250	—	5,629	**5,879**
Other long-term liabilities	766	617	785	1,520	**3,688**
Subtotal	10,823	18,239	12,227	8,502	**49,791**
Operating leases	206	319	189	183	**897**
Outsourcing obligations	193	376	138	12	**719**
Total	11,222	18,934	12,554	8,697	**51,407**

C44 Core funds

$ billions, as at October 31



- Independent specialist units responsible for developing methods to mitigate specific components of operational risk, including codifying policies and processes required to control those specific risks;
- Separation of duties between key functions; and,
- An independent internal audit department responsible for verifying that significant risks are identified and assessed, and for testing controls to ensure that overall risk is at an acceptable level.

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

- The Bank's risk and control self-assessment program, which is managed by Global Risk Management's central operational risk unit, includes formal reviews of significant operations and processes to identify and assess operational risks. Scenario analysis has been successfully introduced to risk assessments as a tool that provides a more forward looking view of key risks. Overall, this program provides a basis for management to ensure that controls are functioning effectively. Business line management attests to the accuracy of each assessment and develops action plans to mitigate risks if controls are not identified as effective. Results of these reviews are summarized and reported to executive management and the Board of Directors.
- The Bank's centralized operational loss event database, which is managed and maintained by the central operational risk unit, captures key information on operational losses. This data is analyzed, benchmarked against industry loss data and significant metrics, then reported to executive management and the Board of Directors to provide insight into operational risk exposures and trends.
- The Bank's monitoring of industry events, which ensures that significant losses incurred at other financial institutions provide a reference for reviewing and assessing our own risk exposure.
- The compliance risk management program led by Group Compliance 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.
- Processes in each business line for evaluation of risk in new businesses and products.
- The Bank's business continuity management policy, which requires that all business units develop business continuity capabilities for their respective functions. The Bank's Business Continuity Management Department is responsible for governance and oversight of the Bank's business continuity, and monitors units to ensure compliance with these policies.
- The Bank's model risk policy, which provides for an annual presentation of model risk ratings to the Operational Risk Committee.
- The Bank's training programs, such as the mandatory Anti-Money Laundering and Information Security examinations which ensure employees are aware and equipped to safeguard our customers' and the Bank's assets.
- Risk mitigation programs, which use insurance policies to transfer the risk of high severity losses, where feasible and appropriate.

The Bank applies the Standardized Approach for calculating operational risk capital under the Basel II capital framework. Total capital is determined as the sum of capital for each of eight Basel defined business activities. The capital for each activity is the product of the relevant risk factor, as defined by Basel, applied to the gross income of each respective business activity. Progress is underway to prepare for the more sophisticated Advanced Measurement Approach (AMA), which is expected to be fully implemented in fiscal 2014. Under AMA, regulatory capital measurement will more directly reflect the Bank's operational risk environment.

Reputational risk

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

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

Reputational risk is managed and controlled throughout the Bank by codes of conduct, governance practices and risk management programs, policies, procedures and training. Many relevant checks and balances are outlined in greater detail under other risk management sections, particularly Operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Scotiabank Guidelines for Business Conduct, and in a manner that minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public, Corporate and Government Affairs and Compliance departments, and the Reputational Risk Committee, are particularly oriented to the management of reputational risk.

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

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

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

Environmental risk

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

To safeguard the Bank and the interests of its stakeholders, Scotiabank has an environmental policy, which 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 as 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 with mitigating environmental risk in the Bank's lending activities. Decisions are taken in the context of the risk management framework discussed on page 62.

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 US $10 million or higher, based on the policies of the International Finance Corporation, the private sector arm of the World Bank. The Equator Principles provide safeguards for sensitive projects to ensure protection of natural habitats and the rights of indigenous peoples, as well as safeguards against child and forced labour.

Environmental concerns also play a prominent role in shaping 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 and reduction measures 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 issues such as climate change, protection of biodiversity, promotion of sustainable forestry practices, and other environmental issues important to its customers and communities where it operates. The Bank has an ongoing process of reviewing its policies in these areas.

Scotiabank has a number of environmentally related products and services to meet demand and promote the "green" economy, including the Scotiabank Global Climate Change Fund, a newly created Environmental Markets group, and an eco-home renovation program, EcoLiving.

Scotiabank is also a signatory, participant and sponsor of the Carbon Disclosure Project in Canada, which provides corporate disclosure to the investment community on greenhouse gas emissions and climate change management. In 2010 Scotiabank was included on the Dow Jones Sustainability Index (DJSI)-(North America), an annual review that recognizes the world's financial, social and environmental corporate leaders. The Bank was also recognized as one of Canada's Green 30 by Maclean's and Canadian Business Magazine. For more information on Scotiabank's environmental policies and practices, please refer to:

- the Bank's annual Public Accountability Statement/Corporate Social Responsibility Report, which is also available online at www.scotiabank.com;
- the Environment section of Scotiabank's website at www.scotiabank.com/environment;
- the Bank's EcoLiving website at www.scotiabank.com/ecoliving; and
- Scotiabank's response to the Carbon Disclosure Project at www.cdproject.net.

CONTROLS AND ACCOUNTING POLICIES

Controls and procedures

Management's responsibility for financial information contained in this annual report is described on page 108.

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, 2010, 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, 2010.

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, 2010.

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 115 to 120 summarizes the significant accounting policies used in preparing the Bank's Consolidated Financial Statements. Certain of these policies require management to make estimates and subjective judgements that are difficult, complex, and often relate to matters that are inherently uncertain. The policies discussed below are considered to be particularly important to the presentation of the Bank's financial position and results of operations, because changes in the judgements and estimates could have a material impact on the Bank's Consolidated Financial Statements. These estimates are adjusted in the normal course of business to reflect changing underlying circumstances.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the probable credit losses in the portfolio of deposits with other institutions, loans to borrowers, acceptances and other indirect credit commitments, such as letters of credit and guarantees. Management undertakes regular reviews of credit quality to assess the adequacy of the allowance for credit losses. This process requires the use of estimates and subjective judgements at many levels. These subjective judgements include identifying credits that are impaired, and considering factors specific to individual credits, as well as portfolio characteristics and risks. Changes to these estimates or use of other reasonable judgements and estimates could directly affect the provision for credit losses.

The allowance for credit losses is composed of specific, general, and sectoral allowances.

Specific allowances are an estimate of probable incurred losses related to existing impaired loans. In establishing specific allowances applicable to individual credit exposures, management first forms a judgement as to whether a loan is impaired. Loan impairment is recognized when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Once a loan is determined to be impaired, management estimates its net realizable value by making judgements relating to the timing of future cash flow amounts, the fair value of any underlying security pledged as collateral, costs of realization, observable market prices, and expectations about the future prospects of the borrower and any guarantors.

Management estimates specific allowances for certain homogenous portfolios, including residential mortgages, credit card loans and most personal loans on a group basis. This involves estimating the probable losses inherent in the portfolio by using a formulaic method that considers recent loss experience.

Specific provisions were lower in 2010 than in 2009, driven primarily by net recoveries in Scotia Capital, which more than offset moderate increases in Canadian Banking and International Banking.

The general allowance is an estimate of probable incurred losses that are inherent in the portfolio of loans and loan commitments, but have not yet been specifically identified on an individual basis. Management establishes the general allowance through an assessment of quantitative and qualitative factors. Using an internally developed model, management arrives at an initial quantitative estimate of the general allowance based on numerous factors, including historical average default probabilities, loss given default rates and exposure at default factors. Material changes in any of these parameters or assumptions would affect the range of expected credit losses and, consequently, could affect the general allowance level. For example, if either the probability of default or the loss given default rates for the non-retail portfolio were independently increased or decreased by 10%, the model would indicate an increase or decrease to the quantitative estimate of approximately $69 million (2009 – $103 million). Senior management determines whether it is necessary to adjust the quantitative estimate for the general allowance to account for portfolio conditions not reflected in the historically based credit parameters used in the model. A qualitative assessment of the general allowance is made based on observable data, such as: economic trends and business conditions, portfolio concentrations, risk migrations and recent trends in volumes and severity of delinquencies and a component for the imprecision inherent in the model and model parameters. Management reviews the general allowance quarterly to assess whether the allowance is at the appropriate level in relation to the size of the portfolio, inherent credit risks and trends in portfolio quality. From time to time, the Bank may establish a sectoral allowance for specific adverse events and changes in economic conditions. These allowances are for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowance. The level of the sectoral allowance considers the probability of default, loss given default and expected exposure at default.

The general allowance for credit losses as at October 31, 2010, was $1,410 million, a decrease of $40 million from a year earlier. The decrease was attributable to an improvement in portfolio quality and a stronger Canadian dollar. The general allowance amount is primarily attributable to business and government loans ($1,262 million), with the remainder allocated to personal and credit cards ($95 million) and residential mortgages ($53 million). As noted above, the specific allowance for credit losses for personal loans, credit cards and mortgages is formula-based and also reflects incurred but not yet identified losses.

As at October 31, 2009, the Bank held a sectoral allowance of $44 million to reflect the deterioration in the automotive industry. During fiscal 2010, $1 million of the sectoral allowance was reclassified to specific provisions for credit losses and the remaining $43 million was reversed as the provisions were no longer required.

Fair value of financial instruments

All financial instruments are measured at fair value on initial recognition except certain related party transactions. Subsequent measurement of a financial instrument depends on its classification. Loans and receivables, certain securities and most financial liabilities are carried at amortized cost unless classified or designated as held for trading or available-for-sale at inception. All other financial instruments, including those designated as held-for-trading at inception, are carried at fair value.

Financial instruments in the Bank's trading portfolios are composed primarily of securities and derivatives. These trading instruments are carried at fair value on the Consolidated Balance Sheet, with changes in the fair values of trading instruments included in the Consolidated Statement of Income.

Securities designated as available-for-sale are recorded at fair value on the Consolidated Balance Sheet. Equity securities which do not have a quoted market price in an active market are measured at cost. The unrealized gains and losses as a result of changes in the fair values of available-for-sale securities are included in the Consolidated Statement of Comprehensive Income.

Derivatives used for asset/liability management are recorded at fair value on the Consolidated Balance Sheet. All changes in these derivative fair values other than those designated as cash flow hedges or net investment hedges are recorded in the Consolidated Statement of Income, while the latter flows through other comprehensive income.

Fair value is defined as the amount of consideration that would be agreed upon in an arms-length transaction, other than a forced sale or liquidation, between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument is used subject to appropriate adjustments, supplemented as required with internal valuation models. Where quoted market prices are not available, the quoted price of similar financial instruments (i.e. with similar characteristics and risk profile) or internal models with observable market-based inputs are used to estimate the fair value.

Fair values are calculated using quoted market prices or observable market inputs for models and require minimal judgement by management. Greater subjectivity is required when making valuation adjustments for financial instruments in inactive markets or when using models where observable parameters do not exist.

Trading securities, available-for-sale securities, and obligations related to securities sold short are normally valued using quoted market prices, including prices obtained from external fund managers and dealers.

To determine the fair value of financial instruments in a less active or inactive market where market prices are not readily observable due to low trading volumes or lack of recent trades, appropriate adjustments are made to available indicative prices to reflect the lack of liquidity in the market for the instruments. Where quoted prices or observable market data is not readily available, for example due to less liquid markets, management's judgement on valuation inputs is necessary to determine fair value.

Most derivatives are not exchange traded and are therefore normally valued using models which incorporate significant observable market parameters. Securities that are fair valued using models include certain types of asset-backed securities. Market inputs used for the fair value determination include observable interest rates, foreign exchange rates, credit spreads, equity prices, commodity prices and option volatilities.

Certain derivative and other financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgement. Where significant unobservable market data is used as a key input into the valuation of certain derivatives, the inception profit on those derivatives is deferred over the life of the derivative contract, or until the valuation inputs become observable. This amount was not material in fiscal 2010 and 2009.

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 $441 million as at October 31, 2010 (2009 – $496 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.

Beginning 2009, the Bank provides disclosures based on the amendments to the Financial Instruments – Disclosure standard. The standard requires expanded disclosures of financial instruments and in particular with classification of all financial instruments carried at fair value into a hierarchy based on the determination of fair value. The valuation hierarchy is as follows:

- Level 1 – fair value is based on unadjusted quoted prices in active markets for identical instruments,
- Level 2 – fair value is based on models using inputs other than quoted prices for the instruments, or
- Level 3 – fair value is based on models using inputs that are not based on observable market data.

The Bank's assets and liabilities which are carried at fair value as classified by the valuation hierarchy are reflected in Note 26 on page 155. The percentage of each asset and liability category by fair value hierarchy level are outlined as follows:

Fair value hierarchy of financial instruments

	Assets			Liabilities	
Fair value hierarchy	Trading Securities	Available-for-sale securities	Derivatives	Obligations related to securities sold short	Derivatives
Level 1	75%	30%	2%	82%	2%
Level 2	23%	67%	95%	18%	90%
Level 3	2%	3%	3%	–	8%
	100%	100%	100%	100%	100%

Other-than-temporary impairment

Available-for-sale securities, except for equity securities which do not have a quoted market price in an active market, are recorded at fair value on the balance sheet. Any unrealized gains and losses on these available-for-sale securities are recorded in other comprehensive income until realized, at which time they are recorded in the Consolidated Statement of Income.

Management reviews the fair value of available-for-sale securities each quarter to determine whether a decline in fair value compared to cost or amortized cost is other-than-temporary. To assess whether an other than temporary impairment has occurred, management must make certain judgements and estimates, and consider factors such as the length of time and extent to which the fair value of a security has been below its cost or amortized cost, prospects for recovery in fair value, the issuer's financial condition and future prospects, and the Bank's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. Once management has determined that the security has experienced an other-than-temporary decline in value, the carrying value of the security is written down to its estimated fair value. To estimate fair value, management considers all of the data gathered during the impairment evaluation process, as well as the market liquidity and the Bank's plans for the security. Other-than-temporary impairment charges are recorded in net gains on securities, other than trading in the Consolidated Statement of Income.

As at October 31, 2010, the gross unrealized gains on available-for-sale securities recorded in accumulated other comprehensive income were $1,687 million (2009 – $1,641 million), and the gross unrealized losses were $270 million (2009 – $628 million). Net unrealized gains were therefore $1,417 million (2009 – $1,013 million) before related derivative and other hedge amounts. The net unrealized gains after related derivative and other hedge amounts were $1,189 million (2009 – $828 million).

At October 31, 2010, the unrealized loss recorded in accumulated other comprehensive income relating to securities in an unrealized loss position for more than 12 months was $211 million (2009 – $376 million). This unrealized loss was comprised of $157 million (2009 – $205 million) in debt securities, $37 million (2009 – $137 million) related to preferred shares and $17 million (2009 – $34 million) related to equity securities. The unrealized losses on the debt securities arose primarily from changes in interest rates and credit spreads. Based on a number of considerations, including underlying credit of the issuers 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. The Bank also holds a

diversified portfolio of available-for-sale equities. Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature. The total fair value of the securities with continuous unrealized losses of more than 12 months was $3,064 million as at October 31, 2010, (2009 – $3,307 million).

Pensions and other employee future benefits

The Bank sponsors various pension and other future benefit plans for eligible employees in Canada, the United States, Mexico and other international operations. The pension benefits are generally based on years of service and average earnings at retirement. Other future benefits generally include post-retirement health care, dental care and life insurance, along with post-employment benefits such as long-term disability.

Employee future benefit expense and the related benefit obligation are calculated using actuarial methods and certain actuarial assumptions. Most of these assumptions are based on management's best estimate and are reviewed and approved annually. The key assumptions include the long-term rate of investment return on plan assets, future compensation, health care costs, employee turnover, retirement age and mortality. When making these estimates, management considers expectations of future economic trends and business conditions, including inflation rates, as well as other factors. Management also reviews historical investment returns, salary increases and health care costs. Another important assumption is the discount rate used for measuring the benefit obligation which is generally prescribed to be equal to the current yield on long term, high-quality corporate bonds with durations similar to the benefit obligation. The management 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 2010 would have been $52 million higher (lower).

The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefit plan. Based on these measurement dates, the Bank reported a deficit of $177 million in its principal pension plans as disclosed in Note 20 to the Consolidated Financial Statements on pages 138 to 140. There has been a decline in the funded status of the plans since 2009 due to a sharp reduction in prescribed discount rates in most countries resulting in a higher benefit obligations. In addition, plan asset values are still below their pre-2008 levels.

The decline in the funded status of the plans will impact the benefit expense for fiscal year 2011 and possibly future years.

Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, consequently increasing or decreasing the benefit expense for future years. In accordance with GAAP, this difference is not recognized immediately as income or expense, but rather is amortized into income over future periods.

Management determines whether the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of each year. Any unrecognized net actuarial gain or loss above this 10% threshold is generally amortized into income over the estimated average remaining service period of active employees ranging from 10 to 20 years for the Bank's principal pension plans, and 8 to 27 years for the Bank's principal other benefit plans.

Note 20 on pages 138 to 140 of the 2010 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 $347 million as at October 31, 2010 (2009 — $376 million). These future tax assets have been reduced by a valuation allowance of $1 million (2009 — $3 million) due to uncertainty about the utilization of these losses. Furthermore, one of the Bank's foreign subsidiaries has a valuation allowance of $316 million (2009 — $313 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 $1,775 million as at October 31, 2010 (2009 — $2,240 million). Note 19 on page 137 of the 2010 Consolidated Financial Statements contains further details with respect to the Bank's provisions for income taxes.

Variable interest entities

In the normal course of business, the Bank enters into arrangements with variable interest entities (VIEs) on behalf of its customers and for its own purposes. These VIEs can be generally categorized as multi-seller commercial paper conduits, funding vehicles, structured finance entities and collateralized debt obligation entities. Further details are provided on pages 46 to 49 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 2010, there were no reconsideration events that would have required the Bank to re-assess the primary beneficiary of its multi-seller conduit VIEs.

As described in Note 6 to the Consolidated Financial Statements (on pages 125 to 126) and in the discussion on off-balance sheet arrangements (on pages 46 to 49), 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, 2010, it would result in an increase in the Bank's reported assets of approximately $4 billion, and a reduction in capital ratios of approximately 10 to 15 basis points.

Goodwill

Under GAAP, goodwill is not amortized but assessed for impairment on an annual basis at the reporting unit level, or more frequently if an event or change in circumstances indicates the asset might be impaired. Goodwill is assessed for impairment by comparing the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, no further testing is required. If the fair value is less than the carrying amount of the reporting unit, the amount of impairment loss is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities.

The Bank determines its reporting 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 for any of its six reporting units in 2010 or 2009.

Contingent liabilities

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in, or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of claimants. According to GAAP, the Bank should accrue for a loss if, in management's opinion, it is likely that a future event will confirm a liability existed at the balance sheet date and the amount of loss can be reasonably estimated.

In some cases, it may not be possible to determine whether a liability has been incurred or to reasonably estimate the amount of loss until the case is closer to resolution. In these instances, no accrual can be made until that time. If it can be determined that a liability existed as at the balance sheet date, but a reasonable estimate involves a range within which a particular amount appears to be a better estimate, that amount would be accrued. If no such better estimate within a range exists, the Bank is required to accrue the minimum amount in the range. On a regular basis, management and internal and external experts are involved in assessing the adequacy of the Bank's contingent loss accrual. Changes in these assessments may lead to changes in litigation accruals.

While there is inherent difficulty in predicting the outcome of such matters, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the Bank's consolidated financial position, or results of operations.

Changes in accounting policies

Current year

There were no changes in accounting standards in 2010 that affected financial statement reporting.

Prior year

Classification and impairment of financial assets

In August 2009, the CICA amended Section 3855, Financial Instruments – Recognition and Measurement, to harmonize classification and related impairment accounting requirements of Canadian GAAP with International Financial Reporting Standards (IFRS). The amendments allow certain debt securities not quoted in an active market to be classified as loans and measured at amortized cost. The Bank still has the ability to classify these instruments as available-for-sale, in which case they are measured at fair value with unrealized gains and losses recorded through other comprehensive income. The amendments also allow the reversal of impairment charges for debt securities classified as available-for-sale on the occurrence of specific events. Impairment charges for debt securities classified as loans are recorded as provisions for credit losses. As a result of this change, the Bank reclassified certain securities not quoted in an active market with carrying value of $9,447 million to loans. This reclassification resulted in reduction of after-tax accumulated other comprehensive loss of $595 million. Details of this change in accounting policy are included in Note 1 to the Consolidated Financial Statements on page 115.

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 26 on pages 155 details the fair value hierarchy of the Bank's financial instruments which are recorded at fair value.

Future accounting changes

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 (adoption date), and will include the preparation and reporting of one year of comparative figures, including an opening balance sheet as at November 1, 2010 (transition date).

In order to prepare for the transition to IFRS, the Bank set up a significant project, implemented a project governance structure and developed an implementation plan which consists of three phases: (i) planning and governance; (ii) review and detailed assessment; and (iii) design, development and implementation. The second phase of review and assessment is now complete. The finalization of accounting decisions by management and their review and approval by the Audit & Conduct Review Committee is outstanding. The Bank has started the third phase for all critical areas and is focused on finalizing implementation decisions regarding first-time adoption and ongoing accounting policy choices.

The Bank actively monitors developments and changes in standards from the International Accounting Standards Board ("IASB") and the Canadian AcSB, as well as regulatory requirements from the Canadian Securities Administrators and OSFI.

As interpretations of current accounting standards continue to change, the Bank will adjust its implementation plan accordingly.

Key elements of the Bank's IFRS changeover plan

The following summarizes the Bank's progress towards completion of selected key activities contained in its conversion plan, including significant milestones and anticipated timelines.

Financial statement presentation

KEY ELEMENTS AND MILESTONES

- Identify differences between Canadian GAAP and IFRS accounting policies.
- Select and approve the Bank's IFRS 1 first-time adoption and ongoing accounting policy choices by Q4 2011.
- Assess requirements and develop model financial statements, including note disclosures under IFRS.
- Prepare an IFRS opening balance sheet by Q4 2011, with significant impacts confirmed by Q3 2011.
- Prepare fiscal 2011 quarterly comparative year information under IFRS for disclosure in 2012.

STATUS

- Detailed assessments of accounting differences applicable to the Bank have been identified.
- Preliminary assessments are completed for IFRS 1 exemptions and key accounting policy choices. Certain decisions will likely be finalized by Q3 2011.
- Preliminary model IFRS financial statements have been prepared. Recommended format of consolidated balance sheet and statement of income is expected to be completed by Q2 2011.
- Quantification of differences and preparation of opening balance sheet is underway and will likely be an ongoing and iterative process through to 2012, including tax impacts.

Training and communication

KEY ELEMENTS AND MILESTONES

- Develop the Bank's training strategy by Q3 2010.
- Provide in-depth training to finance, key support areas, and IFRS governance members (including Board of Directors and senior management).
- Conduct a global learning needs assessment for all stakeholders.
- Determine communication requirements for external stakeholders.

STATUS

- Global training strategy has been finalized and approved.
- Training programs continue to be provided to finance and other key stakeholders, including senior management. Information seminars have been provided to the Board of Directors. Credit and banking personnel also continue to be trained to enable their review of customer financial information prepared on a different basis of accounting.
- Training programs will continue in fiscal 2011 and will be increasingly focused on specific subjects.

- Comprehensive learning needs assessment is underway and ongoing.
- External communication currently provided through the quarterly and annual reports. An industry-wide education session on the impact of IFRS for analysts is planned for Q1 2011.

Information technology systems

KEY ELEMENTS AND MILESTONES

- Implement a solution for the capture of fiscal 2011 comparative year financial statements by Q1 2011.
- Identify and address the need for modification to systems as a result of IFRS changes.

STATUS

- Solution for the capture of comparative year financial information has been designed. System development and testing are underway.
- The Bank has not identified the need for any significant modifications to its information technology systems.

Business and process activities

KEY ELEMENTS AND MILESTONES

- Identify the impact of financial reporting changes on business and process activities by Q4 2010.
- Identify the impact on processes outside of financial reporting, such as the Bank's performance measurement processes, including planning and budgeting, and capital management processes.

STATUS

- The Bank has completed its business impact assessment of the financial reporting changes and has not identified any significant changes required to business activities.
- Applicable hedging strategies have been reviewed to ensure they qualify for hedge accounting under IFRS.
- The Bank has analyzed the impacts of IFRS on processes outside of financial reporting.

Control environment

KEY ELEMENTS AND MILESTONES

- Identify and implement changes in internal controls over financial reporting (ICFR) and disclosure controls and procedures (DC&P) resulting from changes to policies, processes and systems.
- Evaluate the effectiveness of controls to ensure the integrity of financial reporting.

STATUS

- ICFR and DC&P will be appropriately addressed as process and system changes are made.

First-time adoption of IFRS

The Bank's adoption of IFRS will require the application of IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS annual reporting period. However, IFRS 1 does include certain mandatory exceptions and limited optional exemptions from this general requirement of retrospective application. The Bank has not finalized these transition decisions.

SIGNIFICANT OPTIONAL EXEMPTIONS

The following are the more significant optional exemptions available under IFRS 1 which the Bank is currently considering. This is not an exhaustive list and does not encompass all exemptions which the Bank is considering; however the remaining first-time adoption elections under IFRS 1 are not significant to the Bank's conversion and financial statements.

Business combinations

Entities can elect to not retrospectively restate any of the business combinations that occurred prior to the transition date.

If the Bank chooses to not restate any business combinations prior to November 1, 2010, certain adjustments will likely still be required upon transition to IFRS for items such as outstanding contingent consideration and acquisition-related costs. The offsetting amount would be recorded against opening retained earnings.

If the Bank were to restate its business combinations under IFRS, the key accounting differences (that are discussed on page 85) could potentially impact purchase price allocations and the amount of goodwill recorded on the consolidated balance sheet.

Employee benefits

Entities can elect to recognize all cumulative unamortized actuarial gains and losses for employee defined benefit plans at transition date instead of retrospective restatement, with an offsetting adjustment against opening retained earnings.

Based on the Bank's latest actuarial valuation for Canadian GAAP reporting, if the Bank were to choose this accounting exemption, there would be a negative impact to opening retained earnings. The final impact under IFRS would differ from Canadian GAAP numbers due to adjustments for items such as using an October 31 measurement date for the actuarial valuation, and using fair values for determining the expected return on plan assets.

Cumulative translation differences

IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, instead of recalculating from inception. This would result in the reclassification of amounts in accumulated other comprehensive income to retained earnings on transition.

If the Bank were to choose this accounting exemption, certain adjustments may still be required if for example, the Bank assesses there are any changes to the functional currency of its reporting units under IFRS.

Designation of previously recognized financial instruments

Under IFRS and Canadian GAAP, a financial instrument is designated into a specific classification upon inception of the instrument. Classifications cannot be amended subsequently except under rare circumstances.

IFRS 1 permits the Bank to reclassify and redesignate financial instruments at the date of transition as long as certain criteria are met. In addition, the financial instruments of entities consolidated for the first time under IFRS are required to be specially designated on the transition date. These financial instrument classification decisions should be made by November 1, 2010 and appropriately documented at that date.

The Bank has documented its financial instrument classification decisions with regards to redesignations of certain financial instruments on the Bank's balance sheet, as well as the classification of financial instruments of entities that will likely be consolidated for the first time under IFRS. The redesignations relate to financial instruments that would not meet the criteria for fair value option under IFRS. In addition, certain available-for-sale securities will be reclassified to the loans and receivables category under IFRS.

MANDATORY EXCEPTIONS

The IFRS 1 mandatory exceptions that are more relevant to the Bank include the following.

Derecognition of financial assets and liabilities

IFRS 1 requires that the derecognition guidance for financial assets and liabilities be applied to transactions on or after January 1, 2004.

The Bank's insured residential mortgage securitizations through the Canadian Government's Canada Mortgage Bond ("CMB") Programs receive off-balance sheet treatment under Canadian GAAP. The Bank's current view is that these mortgage securitization transactions will likely not meet the derecognition criteria under IFRS. This would result in an increase in total assets and liabilities on the Bank's Consolidated Balance Sheet, with the offset to opening retained earnings.

The impact to retained earnings represents the net effect of the unwinding of the mortgage sales previously recognized under Canadian GAAP and the re-recognition of the mortgages on-balance sheet, along with the related funding liability, under IFRS. The Bank will therefore, reverse the gain on sale previously recognized in earnings under Canadian GAAP, as well as any cumulative mark-to-market on financial instruments related to these transactions. The interest and fees earned on the mortgages, net of the yield paid to the investors in the securitization vehicles, would be recognized going forward.

Future changes in the standard

In November 2010, the IASB approved amendments to IFRS 1 to allow first-time adopters the option of applying the IFRS derecognition requirements to transactions occurring on or after an entity's transition date, or another date of the entity's choosing, instead of the current mandatory date of January 1, 2004. The Bank is currently assessing the impact of these amendments.

Hedge accounting

IFRS 1 requires an entity to recognize hedging relationships in its IFRS opening balance sheet if the hedging instrument is of a type that would qualify for hedge accounting under IFRS. However, hedge accounting can be applied to those hedging relationships subsequent to the transition date only if all IFRS hedge accounting criteria are met. If the criteria are not met, an entity would have to follow IFRS guidance for discontinuing hedge accounting until the criteria are met. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively.

The Bank's applicable hedging strategies have been reviewed to ensure they qualify for hedge accounting under IFRS. Hedging documentation has been amended effective November 1, 2010 to ensure compliance with IFRS.

Key differences between current accounting policies and IFRS requirements

IFRS are premised on a conceptual framework similar to Canadian GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. The Bank has determined a number of key differences that have the potential to significantly affect the financial statements, operations or capital of the Bank. Net adjustments to the Bank's opening balance sheet resulting from differences between Canadian GAAP and IFRS will be recorded against retained earnings on transition, or other component of equity. We are in the process of quantifying these adjustments; however, the impact of IFRS on the Bank's consolidated financial results at the time of the transition is dependent upon prevailing business circumstances, market factors and economic conditions at that time, as well as the accounting elections that have not yet been made. As a result, the transition impact is not reasonably determinable at this time.

Derecognition

Canadian GAAP uses a control-based model to assess derecognition, while IFRS primarily focuses on whether risks and rewards have been substantively transferred. As a result of the differences in criteria, transfers of certain financial assets that previously qualified for derecognition under Canadian GAAP will likely no longer qualify for derecognition under IFRS. As noted above, this would impact the accounting treatment of mortgages sold into the CMB Programs.

Consolidation

Canadian GAAP determines consolidation of an entity using two different frameworks: the variable interest entity ("VIE") and voting control models. The consolidation of a VIE under Canadian GAAP is based on whether the Bank is the primary beneficiary and is exposed to the majority of the VIE's expected losses, or entitled to the majority of the VIE's expected residual returns, or both. Furthermore, Canadian GAAP provides an exemption for the consolidation of qualifying special purpose entities ("QSPE"), eligible under certain conditions.

Under IFRS, an entity will be consolidated based solely on control, which is evidenced by the power to govern the financial and operating policies of an entity to obtain benefit. When assessing control under IFRS, all relevant factors are considered, including qualitative and quantitative aspects. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control can exist when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control. Unlike Canadian GAAP, there is no concept of QSPEs under IFRS.

The Bank has not finalized its consolidation analysis. However, as a result of these accounting differences, the Bank expects to consolidate certain VIEs under IFRS that are not consolidated under Canadian GAAP, such as QSPEs. This would result in an increase in assets, liabilities, and non-controlling interests, with the offset to opening retained earnings. The Bank is still assessing the impact related to its multi-seller conduits.

Future changes in the standard

The IASB is expecting to issue a revised consolidation standard in late 2010. It is unlikely that the revised standard will be effective for the Bank's conversion to IFRS in fiscal 2012.

Business combinations

The business combinations model under IFRS represents a fair value model of accounting which can result in a significant change in accounting compared to current Canadian GAAP. Most significantly, the differences between IFRS and Canadian GAAP relate to the following:

- Directly attributable transaction costs and certain restructuring costs are expensed under IFRS rather than included in the acquisition purchase price.
- Under IFRS, contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value generally being recorded through the income statement. Under Canadian GAAP, contingent consideration is recognized only when the contingency is resolved, and this is recorded against goodwill.
- IFRS allows non-controlling interests ("NCI") to be recognized at fair value, while Canadian GAAP measures NCI at its carrying amount.

- Under Canadian GAAP, previously acquired interests are measured at the carrying amount, while IFRS requires that an existing ownership interest be remeasured to fair value once control is obtained. This remeasurement is recognized through the income statement.
- Shares issued as consideration in a business combination are measured at their market share price at the closing date under IFRS, rather than the announcement date under Canadian GAAP.

Going forward, these differences will result in more income volatility as fewer items are included in the purchase price equation.

Financial instruments

Classification and measurement

For classification and measurement of financial instruments, there is significant alignment between Canadian GAAP and IFRS. However, a difference between IFRS and Canadian GAAP remains for the measurement of unlisted equity securities, which are measured at cost under Canadian GAAP. IFRS requires that all available-for-sale securities be measured at fair value.

Hedging

Hedge accounting requirements are substantially aligned between Canadian GAAP and IFRS.

Impairment

In the provisioning for impaired loans, IFRS and Canadian GAAP are aligned in principle, as they both require an incurred loss provisioning model. However, under IFRS, loan losses and allowances will be presented based on whether they are assessed individually or collectively. As a result, there may be changes in the classification of the Bank's provisions between specific and general allowances versus individual and collective allowances.

Provisioning for loan losses must be based on the discounted values of estimated future cash flows. This amount is accreted over the period from the initial recognition of the provision to the eventual recovery of the present value of the loan, resulting in the recording of interest in the statement of income. IFRS requires that this accretion amount be presented in interest income. As permitted under Canadian GAAP, the Bank records this accretion amount in provision for credit losses.

Future changes in the standard

The IASB issued a new financial instruments standard which addresses the classification and measurement of financial instruments, and is also in the process of considering significant changes to impairment of financial assets and hedge accounting. These changes are not expected to impact the Bank prior to the adoption date.

Impairment of Goodwill

IFRS uses a one-step approach for impairment testing of non-financial assets by comparing the asset's carrying value to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell, and value in use (which uses discounted future cash flows). Canadian GAAP however, uses a two-step approach for impairment testing: first comparing an asset's carrying value with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing the asset's carrying value with its fair value.

IFRS requires that goodwill be allocated and tested for impairment at the level of cash generating unit (CGU) or group of CGUs. CGUs represent the lowest level of assets or groups of assets that generate largely independent cash inflows. Under IFRS, each CGU or group of CGUs to which goodwill is allocated should represent the lowest level within the entity for which information about goodwill is available and monitored for internal management purposes. This level of grouping is potentially more granular when compared to the Canadian GAAP reporting unit.

These differences in impairment testing could result in the identification of impairment more frequently under IFRS. The Bank is in the process of analyzing any potential changes to the assessment of impairment on goodwill.

Employee benefits

The key differences between Canadian GAAP and IFRS are reflected below.

Actuarial gains and losses

IFRS requires an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses, subsequent to the transition date. Under IFRS, actuarial gains and losses may either be:

- deferred and amortized, subject to certain provisions ("corridor approach");
- immediately recognized in profit or loss; or
- immediately recognized in other comprehensive income without subsequent recycling to income.

Under current Canadian GAAP, the Bank follows the corridor approach in recognizing actuarial gains and losses under its defined benefit plans. The Bank has not finalized its decision with respect to the accounting for actuarial gains and losses under IFRS.

Measurement date

IFRS requires that the defined benefit obligation and plan assets be measured at the balance sheet date while Canadian GAAP allows the measurement date of the defined benefit obligation and plan assets to be up to three months prior to the date of the financial statements. The Bank currently uses July 31 or August 31 as the measurement date, depending on the employee future benefit plan.

Expected return on assets

IFRS requires the use of fair value for determining the expected return on plan assets. Canadian GAAP allows the calculation of return on plan assets to be based on either fair value or a market-related value. The Bank's current policy is to use a market-related value for determining the expected return on plan assets.

Future changes in the standard

The IASB is considering changes to its accounting for employee future benefits, which are not expected to be finalized until early 2011. It is likely that adoption of these changes would not be mandatory until after the Bank transitions to IFRS.

Customer loyalty programs

IFRS applies a revenue approach to accounting for customer loyalty programs. The principle being that customers are implicitly paying for the points they receive when they buy goods or services and therefore, a portion of the revenue earned at that time should be deferred. The deferred revenue is calculated based on the estimate of the fair value of the points and recognized when the customer has redeemed the points for an award. Canadian GAAP does not provide specific guidance on accounting for customer loyalty programs. The Bank follows a liability approach for its customer loyalty programs where a provision is recorded based on the cost to provide the award in future. The Bank is currently assessing the impact with respect to its customer loyalty programs. IFRS may affect the timing of revenue recognition; however, over the life of the award, the net income for customer loyalty programs will be the same as under Canadian GAAP.

Share-based payments

IFRS requires cash-settled share-based payments to employees to be measured (both initially and at each reporting date) at fair value of the awards, while Canadian GAAP requires that such payments be measured based on intrinsic value of the awards. This difference is

expected to impact the Bank's liability-based awards. Furthermore, under IFRS, forfeitures are required to be estimated on the grant date and included in the measurement of the liability. However, under Canadian GAAP, forfeitures may be recognized either as they occur, or estimated on initial recognition. The Bank currently recognizes forfeitures as they occur.

Although the expense relating to share-based payments is the same over the life of the award, it will likely be higher in earlier periods under IFRS as compared to Canadian GAAP as a result of these differences.

Investment in associates

Under Canadian GAAP and IFRS, the equity method is used where significant influence exists and the accounting is substantially the same under both standards. However, some key differences exist which are discussed below.

Accounting policies and reporting periods

IFRS explicitly requires that an associate's accounting policies must be consistent with those of its investor, and the reporting dates may not differ by more than three months. Canadian GAAP does not specifically require uniformity in accounting policies and guidance on consistency of reporting periods is not provided. The Bank is currently assessing the impact of these differences.

Potential voting rights

Under IFRS, voting rights that are currently exercisable are considered in assessing significant influence. As a result, there may be more or less investments that require equity accounting under IFRS as potential voting rights are considered.

Regulatory developments

In March 2010, OSFI issued an advisory to federally regulated entities relating to the conversion to IFRS. OSFI requires that the net impact to retained earnings from conversion to IFRS be recognized in available capital. However, for regulatory capital purposes, OSFI has provided banks the option to phase in the impact of conversion to IFRS on retained earnings over a maximum of five quarters. This election must be made at the time of conversion and is irrevocable. OSFI has also made a concession on the calculation of the asset-to-capital multiple ("ACM") with respect to certain securitized insured mortgages that will likely come back on balance sheet. The government insured mortgages securitized through the CMB Programs up until March 31, 2010, will be grandfathered and therefore, would not impact the ACM.

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 $7.3 million as at October 31, 2010 (2009 — $6.8 million), and loans to directors $0.3 million (2009 — $0.1 million).

Directors can use some or all of their fees to buy common shares at market rates through the Directors' Share Purchase Plan. Non-Officer Directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in 2004, the Bank no longer grants stock options to non-officer directors (refer to Note 22 of the Consolidated Financial Statements on page 140).

The Bank may also provide banking services to companies affiliated with the Bank's Directors. These commercial arrangements are conducted at the same market terms and conditions provided to all customers and follow the normal credit review processes within the Bank. The Bank's committed credit exposure to companies controlled by Directors totaled $4.6 million as at October 31, 2010 (2009 — $3.6 million), while actual utilized amounts were $2.8 million (2009 — $1.1 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

T37 Net income by geographic segment

For the fiscal years ($ millions)	2010 Canada	2010 United States	2010 Mexico	2010 Other International	2010 Total	2009 Canada	2009 United States	2009 Mexico	2009 Other International	2009 Total	2008 Canada	2008 United States	2008 Mexico	2008 Other International	2008 Total
Net interest income	$ 5,031	$ 458	$ 801	$ 3,145	$ 9,435	$ 4,552	$ 641	$ 821	$ 3,331	$ 9,345	$ 4,471	$ 236	$ 903	$ 2,627	$ 8,237
Provision for credit losses	709	(54)	168	456	1,279	744	296	185	392	1,617	388	16	141	85	630
Other income	3,770	609	438	1,745	6,562	3,211	452	424	1,525	5,612	2,614	(202)	478	1,137	4,027
Non-interest expenses	4,653	327	778	2,379	8,137	4,529	255	791	2,317	7,892	4,315	200	793	1,982	7,290
Provision for income taxes	738	330	76	558	1,702	513	222	69	380	1,184	344	(98)	122	369	737
Non-controlling interest	1	—	6	93	100	—	—	6	108	114	—	—	9	110	119
Net income	$ 2,700	$ 464	$ 211	$ 1,404	$ 4,779	$ 1,977	$ 320	$ 194	$ 1,659	$ 4,150	$ 2,038	$ (84)	$ 316	$ 1,218	$ 3,488
Preferred dividends paid					192					174					97
Corporate adjustments(1)					(549)					(615)					(358)
Net income available to common shareholders					$ 4,038					$ 3,361					$ 3,033

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

T38 Loans and acceptances by geography

Excludes reverse repos As at September 30 ($ billions)	2010	2009	2008	2007	2006	Percentage mix 2010	Percentage mix 2006
Canada							
Atlantic provinces	$ 17.0	$ 15.7	$ 16.2	$ 14.2	$ 12.7	6.0%	6.2%
Quebec	17.7	16.0	16.7	14.2	13.1	6.3	6.4
Ontario	101.7	96.0	103.5	91.1	81.5	36.2	39.8
Manitoba and Saskatchewan	6.6	6.2	6.4	6.0	5.4	2.3	2.6
Alberta	21.7	20.3	22.4	19.9	17.1	7.7	8.4
British Columbia	21.1	18.8	21.2	18.8	16.4	7.5	8.0
	185.8	173.0	186.4	164.2	146.2	66.0	71.4
United States	21.1	22.0	20.6	14.9	14.3	7.5	7.0
Mexico	10.1	9.7	10.9	8.9	9.3	3.6	4.5
Other International							
Latin America	23.4	21.5	22.6	11.6	9.2	8.3	4.5
Europe	6.5	12.9	18.4	10.2	8.1	2.4	3.9
Caribbean	18.8	15.6	14.8	12.2	11.6	6.7	5.7
Other	17.0	15.1	16.1	9.9	7.4	6.0	3.6
	65.7	65.1	71.9	43.9	36.3	23.4	17.7
General allowance(1)	(1.4)	(1.4)	(1.3)	(1.3)	(1.3)	(0.5)	(0.6)
Total loans and acceptances	$ 281.3	$ 268.4	$ 288.5	$ 230.6	$ 204.8	100.0%	100.0%

(1) As at October 31.

T39 Gross impaired loans by geographic segment

As at October 31 ($ millions)	2010	2009	2008	2007	2006
Canada	$ 1,276	$ 1,258	$ 761	$ 606	$ 655
United States	179	408	107	11	119
Mexico	250	238	216	188	213
Other International	2,716	2,035	1,410	739	883
Total	$ 4,421	$ 3,939	$ 2,494	$ 1,544	$ 1,870

* Certain comparative amounts in the Supplementary Data section have been reclassified to conform with current year presentation.

T40 Specific provision for credit losses by geographic segment

For the fiscal years ($ millions)	2010	2009	2008	2007	2006
Canada	**$ 712**	$ 804	$ 388	$ 295	$ 273
United States	**(13)**	192	16	(91)	(41)
Mexico	**168**	185	141	68	27
Other International	**456**	392	85	23	17
Total	**$ 1,323**	$ 1,573	$ 630	$ 295	$ 276

T41 Geographic distribution of earning assets

	2010					
As at September 30 ($ billions)	**Balance**	**% of earning assets**	2009	2008	2007	2006
North America						
Canada	**$ 295.2**	**62.0%**	$ 277.9	$ 263.0	$ 247.5	$ 218.4
United States	**60.7**	**12.7**	58.2	38.2	36.3	41.9
	355.9	**74.7**	336.1	301.2	283.8	260.3
Mexico	**18.8**	**4.0**	17.8	22.8	19.8	21.1
Europe						
United Kingdom	**12.8**	**2.7**	8.6	11.0	6.4	6.4
Germany	**2.4**	**0.5**	3.7	4.1	3.8	3.5
Ireland	**1.8**	**0.4**	4.7	11.1	6.2	4.8
France	**2.7**	**0.6**	2.2	2.2	2.3	2.5
Netherlands	**1.6**	**0.3**	1.6	2.5	1.4	1.5
Other	**5.0**	**1.0**	6.6	7.5	5.5	3.4
	26.3	**5.5**	27.4	38.4	25.6	22.1
Caribbean						
Jamaica	**3.5**	**0.7**	3.5	3.6	3.2	3.1
Puerto Rico	**6.2**	**1.3**	2.4	2.4	2.1	2.0
Bahamas	**2.4**	**0.5**	2.7	3.0	2.4	2.4
Trinidad & Tobago	**2.4**	**0.5**	2.6	2.1	1.7	1.5
Other	**9.2**	**2.0**	9.1	8.8	7.3	9.0
	23.7	**5.0**	20.3	19.9	16.7	18.0
Latin America						
Chile	**11.3**	**2.4**	11.1	11.0	4.2	4.2
Peru	**9.2**	**1.9**	7.5	7.4	4.5	4.1
Other	**8.7**	**1.8**	8.0	9.1	7.0	4.3
	29.2	**6.1**	26.6	27.5	15.7	12.6
Asia						
India	**4.2**	**0.9**	3.7	3.7	2.5	1.8
Malaysia	**1.7**	**0.3**	1.8	1.8	1.4	1.3
South Korea	**3.1**	**0.6**	2.6	2.0	1.8	1.6
Japan	**1.3**	**0.3**	1.2	1.9	1.8	1.1
China	**3.9**	**0.8**	1.5	2.1	0.9	0.5
Hong Kong	**2.5**	**0.5**	2.9	2.6	1.6	1.7
Other	**4.2**	**1.0**	4.7	3.9	2.7	2.4
	20.9	**4.4**	18.4	18.0	12.7	10.4
Middle East and Africa	**2.9**	**0.6**	3.4	3.1	1.8	1.8
General allowance(1)	**(1.4)**	**(0.3)**	(1.4)	(1.3)	(1.3)	(1.3)
Total	**$ 476.3**	**100.0%**	$ 448.6	429.6	$ 374.8	$ 345.0

(1) As at October 31.

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	**2010 Total**	2009 Total
Mexico	$ 1,383	$ 183	$ 765	$ 227	$ 2,336	$ 51	**$ 4,945**	$ 4,445
Asia								
China	$ 1,664	$ 1,974	$ 249	$ 391	$ —	$ 26	**$ 4,304**	$ 2,065
India	1,707	974	32	196	—	34	**2,943**	2,840
South Korea	1,550	551	—	637	—	125	**2,863**	2,749
Thailand	196	8	—	62	1,367	—	**1,633**	817
Hong Kong	631	271	37	380	—	24	**1,343**	873
Malaysia	549	45	—	167	219	14	**994**	1,157
Japan	251	122	—	80	—	63	**516**	1,049
Other(2)	524	234	53	166	—	2	**979**	1,025
	$ 7,072	$ 4,179	$ 371	$ 2,079	$ 1,586	$ 288	**$ 15,575**	$ 12,575
Latin America								
Chile	$ 1,488	$ 81	$ 102	$ 44	$ 2,050	$ 4	**$ 3,769**	$ 3,010
Peru	433	153	286	—	1,713	5	**2,590**	1,794
Brazil	431	1,392	102	241	—	1	**2,167**	1,883
Costa Rica	871	65	—	1	485	—	**1,422**	1,384
El Salvador	192	6	—	—	386	—	**584**	641
Colombia	238	22	4	—	66	—	**330**	88
Other(3)	1,389	35	23	22	104	18	**1,591**	1,293
	$ 5,042	$ 1,754	$ 517	$ 308	$ 4,804	$ 28	**$ 12,453**	$ 10,093

(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 Panama, Uruguay and Venezuela.

T43 Loans and acceptances by type of borrower

As at October 31 ($ billions)	**2010 Balance**	**2010 % of total**	2009	2008
Loans to households				
Residential mortgages	**$ 120.2**	**41.0%**	$ 101.3	$ 114.9
Credit cards	**10.8**	**3.7**	11.1	11.2
Personal loans	**51.1**	**17.4**	49.3	38.9
	182.1	**62.1**	161.7	165.0
Loans to businesses and governments				
Financial services	**19.3**	**6.6**	18.8	18.7
Wholesale and retail	**10.4**	**3.5**	10.9	14.9
Real estate	**10.7**	**3.6**	11.7	13.5
Oil and gas	**9.3**	**3.2**	9.8	12.0
Transportation	**7.0**	**2.4**	7.8	8.5
Automotive	**5.2**	**1.8**	5.1	7.1
Agriculture	**4.5**	**1.5**	4.3	5.3
Government	**4.2**	**1.4**	3.3	3.4
Hotels and leisure	**4.1**	**1.4**	4.8	5.2
Mining and primary metals	**5.3**	**1.8**	5.7	8.1
Utilities	**5.0**	**1.7**	6.1	6.3
Health care	**4.0**	**1.3**	4.0	5.0
Telecommunications and cable	**3.7**	**1.3**	4.6	6.5
Media	**1.9**	**0.7**	2.7	4.7
Chemical	**1.2**	**0.4**	1.3	1.7
Food and beverage	**2.8**	**1.0**	3.8	3.1
Forest products	**1.1**	**0.4**	1.5	2.1
Other	**11.4**	**3.9**	9.5	10.9
	111.1	**37.9**	115.7	137.0
	293.2	**100.0%**	277.4	302.0
General and sectoral allowances	**(1.4)**		(1.5)	(1.4)
Total loans and acceptances	**$ 291.8**		$ 275.9	$ 300.6

T44 Off-balance sheet credit instruments

As at October 31 ($ billions)	2010	2009	2008	2007	2006
Commitments to extend credit (1)	**$ 103.6**	$ 104.5	$ 130.2	$ 114.3	$ 105.9
Standby letters of credit and letters of guarantee	**20.4**	21.9	27.8	18.4	18.5
Securities lending, securities purchase commitments and other	**14.0**	12.7	12.8	13.8	13.0
Total	**$ 138.0**	$ 139.1	$ 170.8	$ 146.5	$ 137.4

(1) Excludes commitments which are unconditionally cancellable at the Bank's discretion at anytime.

T45 Changes in net impaired loans

For the fiscal years ($ millions)	2010	2009	2008	2007	2006
Gross impaired loans					
Balance at beginning of year	**$ 3,939**	$ 2,494	$ 1,544	$ 1,870	$ 1,820
Net additions					
New additions	**3,298**	4,461	2,158	1,338	1,262
Declassifications, payments and loan sales	**(1.772)**	(1,149)	(846)	(891)	(956)
	1,526	3,312	1,312	447	306
Acquisition of subsidiaries (1)	**571**	—	341	33	340
Writeoffs					
Residential mortgages	**(82)**	(64)	(59)	(5)	(5)
Personal loans	**(804)**	(669)	(424)	(301)	(214)
Credit cards	**(352)**	(470)	(268)	(183)	(150)
Business and government	**(347)**	(457)	(129)	(209)	(174)
	(1,585)	(1,660)	(880)	(698)	(543)
Foreign exchange and other	**(30)**	(207)	177	(108)	(53)
Balance at end of year	**4,421**	3,939	2,494	1,544	1,870
Specific allowance for credit losses					
Balance at beginning of year	**1,376**	1,303	943	1,300	1,139
Acquisition of subsidiaries	**14**	9	232	38	323
Specific provision for credit losses	**1,323**	1,573	630	295	276
Writeoffs	**(1,585)**	(1,660)	(880)	(698)	(543)
Recoveries by portfolio					
Residential mortgages	**18**	27	34	4	3
Personal loans	**122**	94	73	73	71
Credit cards	**56**	47	45	35	37
Business and government	**68**	55	79	74	70
	264	223	231	186	181
Foreign exchange and other (2)	**(15)**	(72)	147	(178)	(76)
Balance at end of year	**1,377**	1,376	1,303	943	1,300
Net impaired loans					
Balance at beginning of year	**2,563**	1,191	601	570	681
Net change in gross impaired loans	**482**	1,445	950	(326)	50
Net change in specific allowance for credit losses	**(1)**	(73)	(360)	357	(161)
Balance at end of year	**3,044**	2,563	1,191	601	570
General allowance for credit losses	**1,410**	1,450	1,323	1,298	1,307
Sectoral allowance	**—**	44	—	—	—
Balance after deducting general and sectoral allowance	**$ 1,634**	$ 1,069	$ (132)	$ (697)	$ (737)

(1) Represents primarily $553 of impaired loans purchased as part of the acquisitions of R-G Premier Bank of Puerto Rico. These impaired loans are carried at fair value on date of aquisition and no allowance for credit losses is recorded at the acquisition date as credit losses are included in the determination of the fair value.

(2) Includes $4 transferred to other liabilities in 2010, $3 transferred from other liabilities in 2009, $3 transferred from other liabilities in 2008, and $5 transferred to other liabilities in 2006.

T46 Provisions for credit losses

For the fiscal years ($ millions)	2010	2009	2008	2007	2006
Specific provisions for credit losses					
Gross specific provisions	**$ 1,708**	$ 1,969	$ 1,084	$ 720	$ 746
Reversals	**(121)**	(173)	(223)	(239)	(289)
Recoveries	**(264)**	(223)	(231)	(186)	(181)
Net specific provisions for credit losses	**1,323**	1,573	630	295	276
General provision	**(40)**	127	—	(25)	(60)
Sectoral provision	**(44)**	44	—	—	—
Total net provisions for credit losses	**$ 1,239**	$ 1,744	$ 630	$ 270	$ 216

T47 Specific provisions for credit losses by type of borrower

For the fiscal years ($ millions)	2010	2009	2008	2007	2006
Personal					
Residential mortgages	**$ 104**	$ 25	$ —	$ (9)	$ 10
Other personal loans	**972**	1,042	636	449	283
	1,076	1,067	636	440	293
Businesses and governments					
Financial services	**6**	199	7	(10)	—
Wholesale and retail	**51**	101	—	(39)	5
Real estate	**16**	59	(69)	(11)	(7)
Oil and gas	**2**	34	43	(1)	—
Transportation	**44**	(9)	(15)	(9)	4
Automotive	**(4)**	19	5	1	11
Agriculture	**(4)**	19	5	(4)	2
Government	**1**	(35)	(18)	2	(6)
Hotels and leisure	**81**	10	(4)	(5)	(21)
Mining and primary metals	**(2)**	3	(16)	(4)	(10)
Utilities	**—**	—	(2)	(18)	(21)
Health care	**8**	4	2	(1)	2
Telecommunications and cable	**(4)**	6	(3)	(5)	(14)
Media	**(15)**	52	11	(13)	(4)
Chemical	**(3)**	1	7	(22)	13
Food and beverage	**2**	8	(17)	(6)	7
Forest products	**2**	5	3	—	(1)
Other	**66**	30	55	—	23
	247	506	(6)	(145)	(17)
Total specific provisions	**$ 1,323**	$ 1,573	$ 630	$ 295	$ 276

T48 Impaired loans by type of borrower

As at October 31 ($ millions)	2010 Gross	2010 Specific allowance for credit losses	2010 Net	2009 Gross	2009 Specific allowance for credit losses	2009 Net
Personal						
Residential mortgages	**$ 1,694**	**$ (222)**	**$ 1,472**	$ 1,119	$ (241)	$ 878
Other personal loans	**756**	**(666)**	**90**	881	(688)	193
	2,450	**(888)**	**1,562**	2,000	(929)	1,071
Businesses and governments						
Financial services	**91**	**(38)**	**53**	225	(42)	183
Wholesale and retail	**225**	**(88)**	**137**	213	(73)	140
Real estate	**705**	**(88)**	**617**	487	(76)	411
Oil and gas	**8**	**(3)**	**5**	71	(6)	65
Transportation	**188**	**(51)**	**137**	76	(15)	61
Automotive	**15**	**(11)**	**4**	77	(22)	55
Agriculture	**78**	**(31)**	**47**	106	(40)	66
Government	**48**	**(10)**	**38**	63	(23)	40
Hotels and leisure	**331**	**(49)**	**282**	260	(13)	247
Mining and primary metals	**18**	**(11)**	**7**	21	(9)	12
Utilities	**2**	**—**	**2**	1	(1)	—
Health care	**23**	**(10)**	**13**	21	(9)	12
Telecommunications and cable	**18**	**(5)**	**13**	36	(14)	22
Media	**4**	**(3)**	**1**	49	(9)	40
Chemical	**1**	**(1)**	**—**	3	(1)	2
Food and beverage	**35**	**(16)**	**19**	41	(15)	26
Forest products	**14**	**(5)**	**9**	19	(12)	7
Other	**167**	**(69)**	**98**	170	(67)	103
	1,971	**(489)**	**1,482**	1,939	(447)	1,492
Total	**$ 4,421**	**$ (1,377)**	**$ 3,044**	$ 3,939	$ (1,376)	$ 2,563

T49 Total credit risk exposures by geography (1,2)

As at October 31 ($ millions)	2010 Non-Retail Drawn	2010 Non-Retail Undrawn	2010 Non-Retail Other exposures(3)	2010 Retail	2010 Total	2009 Total
Canada	$ 51,245	$23,896	$ 22,418	$183,425	**$280,984**	$279,868
United States	32,304	18,220	22,109	683	**73,316**	80,340
Mexico	6,495	225	792	5,146	**12,658**	12,379
Other International						
Europe	16,259	5,311	5,583	—	**27,153**	27,691
Caribbean	14,737	1,276	2,052	12,425	**30,490**	27,743
Latin America	16,063	754	1,359	7,091	**25,267**	24,109
Other	22,711	1,982	2,029	147	**26,869**	22,970
Total	$159,814	$51,664	$ 56,342	$208,917	**$476,737**	$475,100

(1) Geographic segmentation is based upon the location of the ultimate risk of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.

(2) Exposure at default.

(3) Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, derivatives, securitization and repo-style transactions after collateral.

T50 AIRB credit risk exposures by maturity (1,2)

As at October 31 ($ millions) Residual maturity	2010 Drawn	2010 Undrawn	2010 Other exposures(3)	2010 Total	2009 Total
Non-retail					
Less than 1 year	$ 49,967	$ 16,643	$ 21,933	**$ 88,543**	$ 92,957
One to 5 years	32,662	30,261	27,504	**90,427**	108,831
Over 5 years	5,395	779	3,881	**10,055**	11,338
Total non-retail	$ 88,024	$ 47,683	$ 53,318	**$ 189,025**	$ 213,126
Retail					
Less than 1 year	$ 14,025	$ 8,357	$ —	**$ 22,382**	$ 22,411
One to 5 years	115,298	—	—	**115,298**	100,888
Over 5 years	2,866	—	—	**2,866**	2,536
Revolving credits(4)	33,190	5,948	—	**39,138**	38,101

Total retail	$ 165,379	$ 14,305[(2)]	$ —	**$ 179,684**	$ 163,936
Total	$ 253,403	$ 61,988	$ 53,318	**$ 368,709**	$ 377,062

(1) Remaining term to maturity of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.

(2) Exposure at default, before credit risk mitigation.

(3) Off-balance sheet lending instruments, such as letters of credit, letters of guarantee, securitization, derivatives and repo-style transactions after collateral.

(4) Credit cards and lines of credit with unspecified maturity.

T51 Total credit risk exposures and risk-weighted assets

As at October 31 ($ millions)	2010 Exposure at Default[1] AIRB	2010 Exposure at Default[1] Standardized[2]	2010 Exposure at Default[1] Total	2010 Total Risk-weighted assets	2009 Exposure at Default Total[1]	2009 Total Risk-weighted assets
Non-retail						
Corporate						
Drawn	**$ 45,284**	**$ 45,394**	**$ 90,678**	**$ 71,290**	$ 98,975	$ 81,771
Undrawn	**36,008**	**3,277**	**39,285**	**19,553**	36,694	19,429
Other[3]	**10,180**	**2,531**	**12,711**	**6,754**	13,181	6,397
	91,472	**51,202**	**142,674**	**97,597**	148,850	107,597
Bank						
Drawn	**12,394**	**13,441**	**25,835**	**6,107**	21,598	5,527
Undrawn	**11,108**	**636**	**11,744**	**3,162**	14,240	2,391
Other[3]	**10,009**	**487**	**10,496**	**1,800**	12,410	2,032
	33,511	**14,564**	**48,075**	**11,069**	48,248	9,950
Sovereign						
Drawn	**30,346**	**12,955**	**43,301**	**2,080**	51,341	2,340
Undrawn	**567**	**68**	**635**	**71**	866	83
Other[3]	**145**	**6**	**151**	**6**	642	18
	31,058	**13,029**	**44,087**	**2,157**	52,849	2,441
Total Non-retail						
Drawn	**88,024**	**71,790**	**159,814**	**79,477**	171,914	89,638
Undrawn	**47,683**	**3,981**	**51,664**	**22,786**	51,800	21,903
Other[3]	**20,334**	**3,024**	**23,358**	**8,560**	26,233	8,447
	$156,041	**$ 78,795**	**$234,836**	**$ 110,823**	$249,947	$119,988
Retail						
Retail residential mortgages						
Drawn	**$121,265**	**$ 16,666**	**$137,931**	**$ 12,107**	$122,018	$ 9,868
Undrawn	**8,068**	**—**	**8,068**	**132**	6,702	131
	129,333	**16,666**	**145,999**	**12,239**	128,720	9,999
Secured lines of credit						
Drawn	**18,066**	**—**	**18,066**	**967**	18,112	747
Undrawn	**78**	**—**	**78**	**1**	—	—
	18,144	**—**	**18,144**	**968**	18,112	747
Qualifying retail revolving exposures (QRRE)						
Drawn	**13,835**	**—**	**13,835**	**6,967**	13,142	5,406
Undrawn	**5,948**	**—**	**5,948**	**926**	5,594	797
	19,783	**—**	**19,783**	**7,893**	18,736	6,203
Other retail						
Drawn	**12,213**	**12,567**	**24,780**	**14,990**	23,013	14,074
Undrawn	**211**	**—**	**211**	**131**	454	346
	12,424	**12,567**	**24,991**	**15,121**	23,467	14,420
Total retail						
Drawn	**165,379**	**29,233**	**194,612**	**35,031**	176,285	30,095
Undrawn	**14,305**	**—**	**14,305**	**1,190**	12,750	1,274
	$179,684	**$ 29,233**	**$208,917**	**$ 36,221**	$189,035	$ 31,369
Securitization exposures	**15,503**	**—**	**15,503**	**4,606**	18,528	6,474
Trading derivatives	**17,481**	**—**	**17,481**	**5,425**	17,590	5,850
Subtotal	**$368,709**	**$ 108,028**	**$476,737**	**$ 157,075**	$475,100	$163,681
Equities	**2,984**	**—**	**2,984**	**5,664**	2,897	5,607
Other assets	**—**	**28,404**	**28,404**	**12,127**	26,275	12,418

Total credit risk, before scaling factor	**$371,693**	**$ 136,432**	**$508,125**	**$ 174,866**	$504,272	$181,706
Add-on for 6% scaling factor(4)				**5,649**	—	6,134
Total credit risk	**$371,693**	**$ 136,432**	**$508,125**	**$ 180,515**	$504,272	$187,840

(1) Outstanding amount for on-balance sheet exposures and loan equivalent amount for off-balance sheet exposures, before credit risk mitigation.

(2) Net of specific allowances for credit losses.

(3) Other exposures include off-balance sheet lending instruments, such as letters of credit, letters of guarantee, non-trading derivatives and repo-style exposures, after collateral.

(4) Basel Committee imposed scaling factor (6%) on risk-weighted assets for Internal ratings-based credit risk portfolios.

Revenues and Expenses

T52 Volume/rate analysis of changes in net interest income

Taxable equivalent basis[1] For the fiscal years ($ millions)	2010 versus 2009 Increase (decrease) due to change in: Average volume	 Average rate	 Net change	2009 versus 2008 Increase (decrease) due to change in: Average volume	 Average rate	 Net change
Net interest income						
Total earning assets	**$ 652**	**$ (2,698)**	**$ (2,046)**	$ 1,804	$ (5,313)	$ (3,509)
Total interest-bearing liabilities	**(299)**	**2,636**	**2,337**	(1,013)	5,148	4,135
Change in net interest income	**$ 353**	**$ (62)**	**$ 291**	$ 791	$ (165)	$ 626

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

T53 Taxes

For the fiscal years ($ millions)	2010	2009	2008	2007	2006	2010 versus 2009
Income taxes						
Provision for income taxes	**$ 1,745**	$ 1,133	$ 691	$ 1,063	$ 872	**54%**
Taxable equivalent adjustment[1]	**286**	288	416	531	440	**(1)**
Provision for income taxes (TEB)[1]	**2,031**	1,421	1,107	1,594	1,312	**43**
Other taxes						
Payroll taxes	**197**	184	177	164	152	**7**
Business and capital taxes	**171**	177	116	143	133	**(4)**
Goods and services and other	**133**	136	129	143	128	**(2)**
Total other taxes	**501**	497	422	450	413	**1**
Total income and other taxes[2]	**$ 2,532**	$ 1,918	$ 1,529	$ 2,044	$ 1,725	**32%**
Net income before income taxes	**$ 6,084**	$ 4,794	$ 3,950	$ 5,226	$ 4,549	**27%**
Effective income tax rate (%)	**28.7**	23.6	17.5	20.3	19.2	**5.1**
Effective income tax rate (TEB) (%)[3]	**31.9**	28.0	25.4	27.7	26.3	**3.9**
Total tax rate (%)[4]	**34.1**	30.8	25.5	26.7	25.9	**3.3**

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

(2) Comprising $1,365 of Canadian taxes (2009 – $675; 2008 – $569; 2007 – $1,175; 2006 – $1,035) and $1,167 of foreign taxes (2009 – $1,243; 2008 – $960; 2007 – $869; 2006 – $690).

(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

T54 Components of net income as a percentage of average total assets (1)

Taxable equivalent basis For the fiscal years (%)	**2010**	2009	2008	2007	2006
Net interest income	**1.73%**	1.68%	1.75%	1.89%	1.95%
Provision for credit losses	**(0.24)**	(0.34)	(0.14)	(0.07)	(0.06)
Other income	**1.33**	1.19	0.95	1.34	1.37
Net interest and other income	**2.82**	2.53	2.56	3.16	3.26
Non-interest expenses	**(1.59)**	(1.54)	(1.60)	(1.73)	(1.84)
Net income before the undernoted:	**1.23**	0.99	0.96	1.43	1.42
Provision for income taxes and non-controlling interest	**(0.41)**	(0.30)	(0.27)	(0.43)	(0.40)
Net income	**0.82%**	0.69%	0.69%	1.00%	1.02%
Average total assets ($ billions)	**$ 516.0**	$ 513.1	$ 455.5	$ 403.5	$ 350.7

(1) Income from tax-exempt securities has been expressed on an equivalent before-tax basis. The provision for income taxes has been adjusted by a corresponding amount: 2010 – $286 million; 2009 – $288 million; 2008 – $416 million; 2007 – $531 million; 2006 – $440 million.

T55 Assets under administration and management (1)

($ billions)	**2010**	2009	2008	2007	2006
Assets under administration					
Personal					
Retail brokerage	**$ 87.7**	$ 76.4	$ 74.3	$ 77.4	$ 69.7
Investment management and trust	**68.8**	60.1	55.8	53.1	59.5
	156.5	136.5	130.1	130.5	129.2
Mutual funds	**38.8**	31.6	27.9	24.8	19.8
Institutional	**48.5**	47.0	45.1	39.8	42.9
Total	**$ 243.8**	$ 215.1	$ 203.1	$ 195.1	$ 191.9
Assets under management					
Personal	**$ 14.4**	$ 13.6	$ 12.5	$ 11.2	$ 10.0
Mutual funds	**28.0**	22.8	19.6	15.9	13.2
Institutional	**6.0**	5.2	4.6	4.3	4.6
Total	**$ 48.4**	$ 41.6	$ 36.7	$ 31.4	$ 27.8

(1) 2009 and 2010 data as at October 31; 2006 to 2008 data as at September 30.

T56 Fees paid to the shareholders' auditors

For the fiscal years ($ millions)	**2010**	2009
Audit services	**$ 18.0**	$ 16.6
Audit-related services	**0.6**	0.6
Tax services outside of the audit scope	**0.1**	0.1
Other non-audit services	**0.2**	0.7
Total	**$ 18.9**	$ 18.0

T57 Selected quarterly information

As at and for the quarter ended	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Operating results ($ millions)								
Net interest income	**2,243**	**2,173**	**2,058**	**2,147**	2,099	2,176	2,087	1,966
Net interest income (TEB[1])	**2,313**	**2,243**	**2,129**	**2,222**	2,172	2,244	2,164	2,036
Total revenue	**3,942**	**3,784**	**3,873**	**3,906**	3,735	3,775	3,596	3,351
Total revenue (TEB[1])	**4,012**	**3,854**	**3,944**	**3,981**	3,808	3,843	3,673	3,421
Provision for credit losses	**254**	**276**	**338**	**371**	420	554	489	281
Non-interest expenses	**2,183**	**2,023**	**1,967**	**2,009**	2,064	1,959	1,886	2,010
Provision for income taxes	**390**	**399**	**444**	**512**	321	303	319	190
Provision for income taxes (TEB[1])	**460**	**469**	**515**	**587**	394	371	396	260
Net income	**1,092**	**1,062**	**1,097**	**988**	902	931	872	842
Net income available to common shareholders	**1,040**	**1,011**	**1,048**	**939**	853	882	821	805
Operating performance								
Basic earnings per share ($)	**1.00**	**0.98**	**1.02**	**0.92**	0.84	0.87	0.81	0.80
Diluted earnings per share ($)	**1.00**	**0.98**	**1.02**	**0.91**	0.83	0.87	0.81	0.80
Diluted cash earnings per share ($)[1]	**1.02**	**0.99**	**1.04**	**0.93**	0.85	0.88	0.82	0.82
Return on equity (%)[1]	**17.9**	**18.2**	**19.9**	**17.4**	16.4	17.3	16.8	16.2
Productivity ratio (%)(TEB)[1]	**54.4**	**52.5**	**49.9**	**50.5**	54.2	51.0	51.4	58.7
Net interest margin on total average assets (%)(TEB)[1]	**1.75**	**1.68**	**1.73**	**1.76**	1.74	1.76	1.71	1.52
Balance sheet information ($ billions)								
Cash resources and securities	**162.6**	**167.4**	**181.4**	**173.5**	160.6	148.3	137.5	123.7
Loans and acceptances	**291.8**	**286.5**	**281.3**	**275.8**	275.9	276.8	306.6	313.2
Total assets	**526.7**	**523.4**	**526.1**	**507.6**	496.5	486.5	514.5	510.6
Deposits	**361.7**	**365.2**	**371.2**	**364.9**	350.4	333.7	346.9	346.6
Preferred shares	**4.0**	**4.0**	**4.0**	**3.7**	3.7	3.7	3.7	3.7
Common shareholders' equity	**23.7**	**22.5**	**21.6**	**21.6**	21.1	20.3	20.1	19.9
Assets under administration	**243.8**	**229.3**	**231.0**	**226.3**	215.1	207.9	196.8	191.8
Assets under management	**48.4**	**44.9**	**45.4**	**43.6**	41.6	39.8	35.4	34.3
Capital measures								
Tier 1 capital ratio (%)	**11.8**	**11.7**	**11.2**	**11.2**	10.7	10.4	9.6	9.5
Total capital ratio (%)	**13.8**	**13.8**	**13.3**	**13.5**	12.9	12.7	11.8	11.4
Tangible common equity to risk-weighted assets (%)[1]	**9.6**	**9.3**	**8.8**	**8.8**	8.2	7.9	7.2	7.2
Asset-to-capital multiple	**17.0**	**17.1**	**17.7**	**16.8**	16.6	16.6	17.3	18.1
Risk-weighted assets ($ billions)	**215.0**	**213.0**	**215.1**	**215.9**	221.6	221.5	241.8	239.7
Credit quality								
Net impaired loans[2] ($ millions)	**3,044**	**2,598**	**2,475**	**2,677**	2,563	2,509	2,179	1,602
General allowance for credit losses ($ millions)	**1,410**	**1,450**	**1,450**	**1,450**	1,450	1,450	1,350	1,323
Sectoral allowance ($ millions)	**—**	**—**	**24**	**43**	44	48	60	—
Net impaired loans as a % of loans and acceptances[2]	**1.04**	**0.91**	**0.88**	**0.97**	0.93	0.91	0.71	0.51
Specific provision for credit losses as a % of average loans and acceptances (annualized)	**0.41**	**0.43**	**0.55**	**0.55**	0.63	0.64	0.54	0.36
Common share information								
Share price ($)								
High	**55.76**	**52.89**	**55.33**	**49.93**	49.19	46.51	35.85	40.68
Low	**49.00**	**47.71**	**44.39**	**44.12**	42.95	33.75	23.99	27.35
Close	**54.67**	**51.59**	**51.78**	**44.83**	45.25	45.92	33.94	29.67
Shares outstanding (millions)								
Average — Basic	**1,039**	**1,034**	**1,030**	**1,025**	1,021	1,017	1,014	1,001
Average — Diluted	**1,040**	**1,036**	**1,031**	**1,028**	1,024	1,020	1,016	1,003
End of period	**1,043**	**1,038**	**1,034**	**1,029**	1,025	1,020	1,017	1,012
Dividends per share ($)	**0.49**	**0.49**	**0.49**	**0.49**	0.49	0.49	0.49	0.49
Dividend yield (%)[3]	**3.7**	**3.9**	**3.9**	**4.2**	4.3	4.9	6.6	5.8
Market capitalization ($ billions)	**57.0**	**53.6**	**53.5**	**46.1**	46.4	46.9	34.5	30.0
Book value per common share ($)	**22.68**	**21.67**	**20.87**	**21.04**	20.55	19.89	19.80	19.67
Market value to book value multiple	**2.4**	**2.4**	**2.5**	**2.1**	2.2	2.3	1.7	1.5
Price to earnings multiple (trailing 4 quarters)	**14.0**	**13.8**	**14.2**	**13.0**	13.6	16.6	11.8	9.8

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

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

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

T58 Consolidated Balance Sheet

As at October 31 ($ millions)	2010	2009	2008	2007
Assets				
Cash resources	**$ 46,027**	$ 43,278	$ 37,318	$ 29,195
Securities				
Trading	**64,684**	58,067	48,292	59,685
Available-for-sale	**47,228**	55,699	38,823	28,426
Investment	**—**	—	—	—
Equity accounted investments	**4,651**	3,528	920	724
	116,563	117,294	88,035	88,835
Securities purchased under resale agreements	**27,920**	17,773	19,451	22,542
Loans				
Residential mortgages	**120,482**	101,604	115,084	102,154
Personal and credit cards	**62,548**	61,048	50,719	41,734
Business and government	**103,981**	106,520	125,503	85,500
	287,011	269,172	291,306	229,388
Allowance for credit losses	**2,787**	2,870	2,626	2,241
	284,224	266,302	288,680	227,147
Other				
Customers' liability under acceptances	**7,616**	9,583	11,969	11,538
Derivative instruments(1)	**26,852**	25,992	44,810	21,960
Land, buildings and equipment	**2,450**	2,372	2,449	2,061
Other assets(1)	**15,005**	13,922	14,913	8,232
	51,923	51,869	74,141	43,791
	$526,657	$496,516	$507,625	$411,510
Liabilities and shareholders' equity				
Deposits				
Personal	**$128,850**	$123,762	$118,919	$100,823
Business and government	**210,687**	203,594	200,566	161,229
Banks	**22,113**	23,063	27,095	26,406
	361,650	350,419	346,580	288,458
Other				
Acceptances	**7,616**	9,583	11,969	11,538
Obligations related to securities sold under repurchase agreements	**40,286**	36,568	36,506	28,137
Obligations related to securities sold short	**21,519**	14,688	11,700	16,039
Derivative instruments(1)	**31,990**	28,806	42,811	24,689
Other liabilities(1)	**28,947**	24,682	31,063	21,138
Non-controlling interest in subsidiaries	**579**	554	502	497
	130,937	114,881	134,551	102,038
Subordinated debentures	**5,939**	5,944	4,352	1,710
Capital instrument liabilities	**500**	500	500	500
Shareholders' equity				
Preferred shares	**3,975**	3,710	2,860	1,635
Common shareholders' equity				
Common shares and contributed surplus	**5,775**	4,946	3,829	3,566
Retained earnings	**21,932**	19,916	18,549	17,460
Accumulated other comprehensive income	**(4,051)**	(3,800)	(3,596)	(3,857)
Total common shareholders' equity	**23,656**	21,062	18,782	17,169
	27,631	24,772	21,642	18,804
	$526,657	$496,516	$507,625	$411,510

(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.

2006	2005	2004	2003	2002	2001	2000
$ 23,376	$ 20,505	$ 17,155	$ 20,581	$ 20,273	$ 20,160	$ 18,744
62,490	50,007	43,056	42,899	34,592	27,834	21,821
—	—	—	—	—	—	—
32,870	23,285	15,576	20,141	21,439	25,256	19,162
142	167	141	152	163	194	403
95,502	73,459	58,773	63,192	56,194	53,284	41,386
25,705	20,578	17,880	22,648	32,262	27,500	23,559
89,590	75,520	69,018	61,646	56,295	52,592	50,037
39,058	34,695	30,182	26,277	23,363	20,116	17,988
76,733	62,681	57,384	64,313	77,181	79,460	78,172
205,381	172,896	156,584	152,236	156,839	152,168	146,197
2,607	2,469	2,696	3,217	3,430	4,236	2,853
202,774	170,427	153,888	149,019	153,409	147,932	143,344
9,555	7,576	7,086	6,811	8,399	9,301	8,807
12,098	12,867	15,488	15,308	15,821	15,886	8,244
2,103	1,836	1,823	1,944	2,101	2,325	1,631
7,893	6,777	7,119	6,389	7,921	8,037	7,456
31,649	29,056	31,516	30,452	34,242	35,549	26,138
$ 379,006	$ 314,025	$ 279,212	$ 285,892	$ 296,380	$ 284,425	$ 253,171
$ 93,450	$ 83,953	$ 79,020	$ 76,431	$ 75,558	$ 75,573	$ 68,972
141,072	109,389	94,125	93,541	93,830	80,810	76,980
29,392	24,103	22,051	22,700	26,230	29,812	27,948
263,914	217,445	195,196	192,672	195,618	186,195	173,900
9,555	7,576	7,086	6,811	8,399	9,301	8,807
33,470	26,032	19,428	28,686	31,881	30,627	23,792
13,396	11,250	7,585	9,219	8,737	6,442	4,297
12,869	13,004	16,002	14,758	15,500	15,453	8,715
24,799	18,983	13,785	14,145	15,678	15,369	14,586
435	306	280	326	662	586	229
94,524	77,151	64,166	73,945	80,857	77,778	60,426
2,271	2,597	2,615	2,661	3,878	5,344	5,370
750	750	2,250	2,500	2,225	1,975	1,975
600	600	300	300	300	300	300
3,425	3,317	3,229	3,141	3,002	2,920	2,765
15,843	14,126	13,239	11,747	10,398	9,674	8,275
(2,321)	(1,961)	(1,783)	(1,074)	102	239	160
16,947	15,482	14,685	13,814	13,502	12,833	11,200
17,547	16,082	14,985	14,114	13,802	13,133	11,500
$ 379,006	$ 314,025	$ 279,212	$ 285,892	$ 296,380	$ 284,425	$ 253,171

T59 Consolidated Statement of Income

For the year ended October 31 ($ millions)	2010	2009	2008	2007
Interest income				
Loans	**$ 12,171**	$ 13,973	$ 15,832	$ 13,985
Securities	**4,227**	4,090	4,615	4,680
Securities purchased under resale agreements	**201**	390	786	1,258
Deposits with banks	**292**	482	1,083	1,112
	16,891	18,935	22,316	21,035
Interest expenses				
Deposits	**6,768**	8,339	12,131	10,850
Subordinated debentures	**289**	285	166	116
Capital instrument liabilities	**37**	37	37	53
Other	**1,176**	1,946	2,408	2,918
	8,270	10,607	14,742	13,937
Net interest income	**8,621**	8,328	7,574	7,098
Provision for credit losses	**1,239**	1,744	630	270
Net interest income after provision for credit losses	**7,382**	6,584	6,944	6,828
Other income	**6,884**	6,129	4,302	5,392
Net interest and other income	**14,266**	12,713	11,246	12,220
Non-interest expenses				
Salaries and employee benefits	**4,647**	4,344	4,109	3,983
Other(1)	**3,535**	3,575	3,187	3,011
Restructuring provisions following acquisitions	**—**	—	—	—
	8,182	7,919	7,296	6,994
Income before the undernoted	**6,084**	4,794	3,950	5,226
Provision for income taxes	**1,745**	1,133	691	1,063
Non-controlling interest in net income of subsidiaries	**100**	114	119	118
Net income	**$ 4,239**	$ 3,547	$ 3,140	$ 4,045
Preferred dividends paid and other	**201**	186	107	51
Net income available to common shareholders	**$ 4,038**	$ 3,361	$ 3,033	$ 3,994
Average number of common shares outstanding (millions):				
Basic	**1,032**	1,013	987	989
Diluted	**1,034**	1,016	993	997
Earnings per common share (in dollars):				
Basic	**$ 3.91**	$ 3.32	$ 3.07	$ 4.04
Diluted	**$ 3.91**	$ 3.31	$ 3.05	$ 4.01
Dividends per common share (in dollars)	**$ 1.96**	$ 1.96	$ 1.92	$ 1.74

(1) Other non-interest expenses include a loss on disposal of subsidiary operations in 2003 and 2002 of $31 and $237, respectively.

2006	2005	2004	2003	2002	2001	2000
$ 11,575	$ 9,236	$ 8,480	$ 9,073	$ 9,635	$ 11,530	$ 11,044
4,124	3,104	2,662	2,859	3,087	3,062	2,286
1,102	817	594	872	1,073	1,519	1,085
881	646	441	442	573	872	916
17,682	13,803	12,177	13,246	14,368	16,983	15,331
8,589	5,755	4,790	5,222	5,519	8,233	8,192
130	134	112	139	203	303	324
53	53	164	182	158	136	120
2,502	1,990	1,410	1,735	1,971	2,247	1,616
11,274	7,932	6,476	7,278	7,851	10,919	10,252
6,408	5,871	5,701	5,968	6,517	6,064	5,079
216	230	390	893	2,029	1,425	765
6,192	5,641	5,311	5,075	4,488	4,639	4,314
4,800	4,529	4,320	4,015	3,942	4,071	3,665
10,992	10,170	9,631	9,090	8,430	8,710	7,979
3,768	3,488	3,452	3,361	3,344	3,220	2,944
2,675	2,555	2,410	2,370	2,630	2,442	2,209
—	—	—	—	—	—	(34)
6,443	6,043	5,862	5,731	5,974	5,662	5,119
4,549	4,127	3,769	3,359	2,456	3,048	2,860
872	847	786	777	594	869	983
98	71	75	160	154	102	43
$ 3,579	$ 3,209	$ 2,908	$ 2,422	$ 1,708	$ 2,077	$ 1,834
30	25	16	16	16	16	16
$ 3,549	$ 3,184	$ 2,892	$ 2,406	$ 1,692	$ 2,061	$ 1,818
988	998	1,010	1,010	1,009	1,001	991
1,001	1,012	1,026	1,026	1,026	1,018	1,003
$ 3.59	$ 3.19	$ 2.87	$ 2.38	$ 1.68	$ 2.06	$ 1.83
$ 3.55	$ 3.15	$ 2.82	$ 2.34	$ 1.65	$ 2.02	$ 1.81
$ 1.50	$ 1.32	$ 1.10	$ 0.84	$ 0.73	$ 0.62	$ 0.50

T60 Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 ($ millions)	2010	2009	2008	2007
Preferred shares				
Balance at beginning of year	**$ 3,710**	$ 2,860	$ 1,635	$ 600
Issued	**265**	850	1,225	1,035
Balance at end of year	**3,975**	3,710	2,860	1,635
Common shares and contributed surplus				
Common shares:				
Balance at beginning of year	**4,946**	3,829	3,566	3,425
Issued	**804**	1,117	266	184
Purchased for cancellation	**—**	—	(3)	(43)
Balance at end of year	**5,750**	4,946	3,829	3,566
Contributed surplus:				
Balance at beginning of year	—	—	—	—
Stock option expense	**25**	—	—	—
Balance at end of year	**25**	—	—	—
Total	**5,775**	4,946	3,829	3,566
Retained earnings				
Balance at beginning of year	**19,916**	18,549	17,460	15,843
Adjustments	**—**	—	—	(61)(1)
Net income	**4,239**	3,547	3,140	4,045
Dividends: Preferred	**(201)**	(186)	(107)	(51)
Common	**(2,023)**	(1,990)	(1,896)	(1,720)
Purchase of shares and premium on redemption	**—**	—	(37)	(586)
Other	**1**	(4)	(11)	(10)
Balance at end of year	**21,932**	19,916	18,549	17,460
Accumulated other comprehensive income (loss)				
Balance at beginning of year	**(3,800)**	(3,596)	(3,857)	(2,321)
Cumulative effect of adopting new accounting policies	**—**	595(5)	—	683
Other comprehensive income (loss)	**(251)**	(799)	261	(2,219)
Balance at end of year	**(4,051)**	(3,800)	(3,596)	(3,857)
Total shareholders' equity at end of year	**$27,631**	$24,772	$21,642	$18,804

T61 Consolidated Statement of Comprehensive Income

For the year ended October 31 ($ millions)	2010	2009	2008	2007
Net income	**$ 4,239**	$ 3,547	$ 3,140	$ 4,045
Other comprehensive income (loss), net of income taxes:				
Net change in unrealized foreign currency translation gains (losses)	**(591)**	(1,736)	2,368	(2,228)
Net change in unrealized gains (losses) on available-for-sale securities	**278**	894	(1,588)	(67)
Net change in gains (losses) on derivative instruments designated as cash flow hedges	**62**	43	(519)	76
Other comprehensive income (loss)	**(251)**	(799)	261	(2,219)
Comprehensive income	**$ 3,988**	$ 2,748	$ 3,401	$ 1,826

(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 adoption of the new accounting standard for impairment and classification of financial instruments. Refer to Note 1 of the Consolidated Financial Statements for details.

2006	2005	2004	2003	2002	2001	2000
$ 600	$ 300	$ 300	$ 300	$ 300	$ 300	$ 300
—	300	—	—	—	—	—
600	600	300	300	300	300	300
3,316	3,228	3,140	3,002	2,920	2,765	2,678
135	172	117	163	101	155	87
(26)	(84)	(29)	(25)	(19)	—	—
3,425	3,316	3,228	3,140	3,002	2,920	2,765
1	1	1	—	—	—	—
(1)	—	—	1	—	—	—
—	1	1	1	—	—	—
3,425	3,317	3,229	3,141	3,002	2,920	2,765
14,126	13,239	11,747	10,398	9,674	8,275	6,956
(25)(2)	—	—	—	(76)(3)	(39)(4)	—
3,579	3,209	2,908	2,422	1,708	2,077	1,834
(30)	(25)	(16)	(16)	(16)	(16)	(16)
(1,483)	(1,317)	(1,110)	(849)	(732)	(621)	(496)
(324)	(973)	(290)	(201)	(154)	—	—
—	(7)	—	(7)	(6)	(2)	(3)
15,843	14,126	13,239	11,747	10,398	9,674	8,275
(1,961)	(1,783)	(1,074)	102	239	160	(3)
—	—	—	—	—	—	—
(360)	(178)	(709)	(1,176)	(137)	79	163
(2,321)	(1,961)	(1,783)	(1,074)	102	239	160
$ 17,547	$ 16,082	$ 14,985	$ 14,114	$ 13,802	$ 13,133	$ 11,500

2006	2005	2004	2003	2002	2001	2000
$ 3,579	$ 3,209	$ 2,908	$ 2,422	$ 1,708	$ 2,077	$ 1,834
(360)	(178)	(709)	(1,176)	(137)	79	163
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(360)	(178)	(709)	(1,176)	(137)	79	163
$ 3,219	$ 3,031	$ 2,199	$ 1,246	$ 1,571	$ 2,156	$ 1,997

T62 Other statistics

For the year ended October 31	**2010**	2009	2008	2007
Operating performance				
Basic earnings per share ($)	**3.91**	3.32	3.07	4.04
Diluted earnings per share ($)	**3.91**	3.31	3.05	4.01
Return on equity (%)(1)	**18.3**	16.7	16.7	22.0
Productivity ratio (%)(TEB(1))	**51.8**	53.7	59.4	53.7
Return on assets (%)	**0.82**	0.69	0.69	1.00
Net interest margin on total average assets (%)(TEB (1))	**1.73**	1.68	1.75	1.89
Capital measures(2)				
Tier 1 capital ratio (%)	**11.8**	10.7	9.3	9.3
Total capital ratio (%)	**13.8**	12.9	11.1	10.5
Tangible common equity to risk-weighted assets (1) (%)	**9.6**	8.2	6.6	7.4
Assets-to-capital multiple	**17.0**	16.6	18.0	18.2
Common share information				
Share price ($):				
High	**55.76**	49.19	54.00	54.73
Low	**44.12**	23.99	35.25	46.70
Close	**54.67**	45.25	40.19	53.48
Number of shares outstanding (millions)	**1,043**	1,025	992	984
Dividends per share ($)	**1.96**	1.96	1.92	1.74
Dividend yield (%)(3)	**3.9**	5.4	4.3	3.4
Price to earnings multiple(4)	**14.0**	13.6	13.1	13.2
Book value per common share ($)	**22.68**	20.55	18.94	17.45
Other information				
Average total assets ($ millions)	**515,991**	513,149	455,539	403,475
Number of branches and offices	**2,784**	2,686	2,672	2,331
Number of employees(5)	**70,772**	67,802	69,049	58,113
Number of automated banking machines	**5,978**	5,778	5,609	5,283

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

(2) 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.

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

(4) Based on the closing common share price.

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

2006	2005	2004	2003	2002	2001	2000
3.59	3.19	2.87	2.38	1.68	2.06	1.83
3.55	3.15	2.82	2.34	1.65	2.02	1.81
22.1	20.9	19.9	17.6	13.0	17.3	17.6
55.3	56.3	56.9	55.9	55.7	54.6	57.3
1.02	1.04	1.02	0.84	0.58	0.76	0.77
1.95	2.00	2.10	2.16	2.29	2.32	2.21
10.2	11.1	11.5	10.8	9.9	9.3	8.6
11.7	13.2	13.9	13.2	12.7	13.0	12.2
8.3	9.3	9.7	8.9	8.3	7.8	7.0
17.1	15.1	13.8	14.4	14.5	13.5	13.7
49.80	44.22	40.00	33.70	28.10	25.25	22.83
41.55	36.41	31.08	22.28	21.01	18.65	13.03
49.30	42.99	39.60	32.74	22.94	21.93	21.75
990	990	1,009	1,011	1,008	1,008	996
1.50	1.32	1.10	0.84	0.73	0.62	0.50
3.3	3.3	3.1	3.0	3.0	2.8	2.8
13.7	13.5	13.8	13.8	13.7	10.6	11.9
17.13	15.64	14.56	13.67	13.39	12.74	11.25
350,709	309,374	283,986	288,513	296,852	271,843	238,664
2,191	1,959	1,871	1,850	1,847	2,005	1,695
54,199	46,631	43,928	43,986	44,633	46,804	40,946
4,937	4,449	4,219	3,918	3,693	3,761	2,669

Consolidated Financial Statements

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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, 2010 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 3, 2010

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, 2010 and 2009 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, 2010. 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, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2010 in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Canada

December 3, 2010

Consolidated Balance Sheet

As at October 31 ($ millions)	2010	2009
Assets		
Cash resources		
Cash and non-interest-bearing deposits with banks	**$ 3,730**	$ 3,355
Interest-bearing deposits with banks	**35,800**	34,343
Precious metals	**6,497**	5,580
	46,027	43,278
Securities (Note 3)		
Trading	**64,684**	58,067
Available-for-sale	**47,228**	55,699
Equity accounted investments	**4,651**	3,528
	116,563	117,294
Securities purchased under resale agreements	**27,920**	17,773
Loans (Note 4)		
Residential mortgages	**120,482**	101,604
Personal and credit cards	**62,548**	61,048
Business and government	**103,981**	106,520
	287,011	269,172
Allowance for credit losses (Note 5 (b))	**2,787**	2,870
	284,224	266,302
Other		
Customers' liability under acceptances	**7,616**	9,583
Derivative instruments (Note 28 (d))	**26,852**	25,992
Land, buildings and equipment (Note 7)	**2,450**	2,372
Goodwill (Note 8)	**3,050**	2,908
Other intangible assets (Note 8)	**589**	561
Other assets (Note 9)	**11,366**	10,453
	51,923	51,869
	$526,657	$496,516
Liabilities and shareholders' equity		
Deposits (Note 10)		
Personal	**$128,850**	$123,762
Business and government	**210,687**	203,594
Banks	**22,113**	23,063
	361,650	350,419
Other		
Acceptances	**7,616**	9,583
Obligations related to securities sold under repurchase agreements	**40,286**	36,568
Obligations related to securities sold short	**21,519**	14,688
Derivative instruments (Note 28 (d))	**31,990**	28,806
Other liabilities (Note 11)	**28,947**	24,682
Non-controlling interest in subsidiaries	**579**	554
	130,937	114,881
Subordinated debentures (Note 12)	**5,939**	5,944
Capital instrument liabilities (Note 13)	**500**	500
Shareholders' equity		
Preferred shares (Note 14)	**3,975**	3,710
Common shareholders' equity		
Common shares and contributed surplus (Note 15)	**5,775**	4,946
Retained earnings	**21,932**	19,916
Accumulated other comprehensive income (loss) (Note 17)	**(4,051)**	(3,800)
Total common shareholders' equity	**23,656**	21,062
	27,631	24,772
	$526,657	$496,516

John T. Mayberry
Chairman of the Board

Rick Waugh
President and Chief Executive Officer

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

Consolidated Statement of Income

For the year ended October 31 ($ millions)	2010	2009	2008
Interest income			
Loans	**$ 12,171**	$ 13,973	$ 15,832
Securities	**4,227**	4,090	4,615
Securities purchased under resale agreements	**201**	390	786
Deposits with banks	**292**	482	1,083
	16,891	18,935	22,316
Interest expenses			
Deposits	**6,768**	8,339	12,131
Subordinated debentures	**289**	285	166
Capital instrument liabilities	**37**	37	37
Other	**1,176**	1,946	2,408
	8,270	10,607	14,742
Net interest income	**8,621**	8,328	7,574
Provision for credit losses (Note 5 (b))	**1,239**	1,744	630
Net interest income after provision for credit losses	**7,382**	6,584	6,944
Other income			
Card revenues	**426**	424	397
Deposit and payment services	**883**	905	862
Mutual funds	**582**	371	317
Investment management, brokerage and trust services	**781**	728	760
Credit fees	**831**	866	579
Trading revenues	**1,016**	1,057	188
Underwriting fees and other commissions	**561**	620	402
Foreign exchange other than trading	**337**	373	314
Net gain (loss) on securities, other than trading (Note 3 (d))	**355**	(412)	(374)
Securitization revenues	**124**	409	130
Other	**988**	788	727
	6,884	6,129	4,302
Net interest and other income	**14,266**	12,713	11,246
Non-interest expenses			
Salaries and employee benefits	**4,647**	4,344	4,109
Premises and technology	**1,526**	1,543	1,417
Communications	**340**	346	326
Advertising and business development	**364**	307	320
Professional	**224**	216	227
Business and capital taxes	**171**	177	116
Other	**910**	986	781
	8,182	7,919	7,296
Income before the undernoted	**6,084**	4,794	3,950
Provision for income taxes (Note 19)	**1,745**	1,133	691
Non-controlling interest in net income of subsidiaries	**100**	114	119
Net income	**$ 4,239**	$ 3,547	$ 3,140
Preferred dividends paid	**201**	186	107
Net income available to common shareholders	**$ 4,038**	$ 3,361	$ 3,033
Average number of common shares outstanding (millions) (Note 21):			
Basic	**1,032**	1,013	987
Diluted	**1,034**	1,016	993
Earnings per common share (in dollars) (1) (Note 21):			
Basic	**$ 3.91**	$ 3.32	$ 3.07
Diluted	**$ 3.91**	$ 3.31	$ 3.05
Dividends per common share (in dollars)	**$ 1.96**	$ 1.96	$ 1.92

(1) 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)	2010	2009	2008
Preferred shares (Note 14)			
Balance at beginning of year	**$ 3,710**	$ 2,860	$ 1,635
Issued	**265**	850	1,225
Balance at end of year	**3,975**	3,710	2,860
Common shares and contributed surplus (Note 15)			
Common shares:			
Balance at beginning of year	**4,946**	3,829	3,566
Issued	**804**	1,117	266
Purchased for cancellation	**—**	—	(3)
Balance at end of year	**5,750**	4,946	3,829
Contributed surplus:			
Balance at beginning of year	**—**	—	—
Stock option expense (Note 18)	**25**	—	—
Balance at end of year	**25**	—	—
Total	**5,775**	4,946	3,829
Retained earnings			
Balance at beginning of year	**19,916**	18,549	17,460
Net income	**4,239**	3,547	3,140
Dividends: Preferred	**(201)**	(186)	(107)
Common	**(2,023)**	(1,990)	(1,896)
Purchase of shares	**—**	—	(37)
Other	**1**	(4)	(11)
Balance at end of year (1)	**21,932**	19,916	18,549
Accumulated other comprehensive income (loss)			
Balance at beginning of year as previously reported	**(3,800)**	(3,596)	(3,857)
Cumulative effect of adopting new accounting policies	**—**	595 (2)	—
Balance at beginning of year as restated	**(3,800)**	(3,001)	(3,857)
Other comprehensive income (loss) (Note 17)	**(251)**	(799)	261
Balance at end of year	**(4,051)**	(3,800)	(3,596)
Total shareholders' equity at end of year	**$27,631**	$24,772	$21,642

Consolidated Statement of Comprehensive Income

For the year ended October 31 ($ millions)	2010	2009	2008
Net income	**$ 4,239**	$ 3,547	$ 3,140
Other comprehensive income (loss), net of income taxes (Note 17):			
Net change in unrealized foreign currency translation gains (losses)	**(591)**	(1,736)	2,368
Net change in unrealized gains (losses) on available-for-sale securities	**278**	894	(1,588)
Net change in gains (losses) on derivative instruments designated as cash flow hedges	**62**	43	(519)
Other comprehensive income (loss)	**(251)**	(799)	261
Comprehensive income	**$ 3,988**	$ 2,748	$ 3,401

(1) Includes undistributable retained earnings of $28 (2009 – $26; 2008 – $25) of a foreign associated corporation which are subject to local regulatory restriction.

(2) Refer to Note 1 for impact of new accounting policies adopted in 2009 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)	2010	2009	2008
Cash flows from operating activities			
Net income	**$ 4,239**	$ 3,547	$ 3,140
Adjustments to determine net cash flows from (used in) operating activities:			
Depreciation and amortization	**334**	330	291
Provision for credit losses	**1,239**	1,744	630
Future income taxes	**557**	162	(367)
Net gain (loss) on securities, other than trading	**(355)**	412	374
Changes in operating assets and liabilities:			
Net accrued interest receivable and payable	**186**	(229)	60
Trading securities	**(7,052)**	(10,898)	13,721
Derivative assets	**(2,642)**	17,320	(15,292)
Derivative liabilities	**4,353**	(12,009)	11,202
Other, net	**(3,804)**	(11,426)	6,290
	(2,945)	(11,047)	20,049
Cash flows from financing activities			
Deposits	**14,248**	17,031	28,106
Obligations related to securities sold under repurchase agreements	**4,104**	1,109	6,913
Obligations related to securities sold short	**6,872**	3,165	(5,020)
Subordinated debentures issued	**—**	2,000	3,144
Subordinated debentures redemptions/repayments	**(11)**	(359)	(691)
Preferred shares issued	**265**	600	1,225
Common shares issued	**753**	585	234
Common shares redeemed/purchased for cancellation	**—**	—	(40)
Cash dividends paid	**(2,224)**	(2,176)	(2,003)
Other, net	**5,182**	(1,789)	(101)
	29,189	20,166	31,767
Cash flows from investing activities			
Interest-bearing deposits with banks	**(3,383)**	(5,781)	(5,052)
Securities purchased under resale agreements	**(9,789)**	980	3,793
Loans, excluding securitizations	**(26,725)**	(12,583)	(47,483)
Loan securitizations	**3,762**	11,879	5,121
Securities, other than trading			
Purchases	**(28,125)**	(40,197)	(41,444)
Maturities	**11,307**	7,422	16,842
Sales	**28,214**	31,985	19,346
Land, buildings and equipment, net of disposals	**(304)**	(199)	(401)
Other, net(1)	**(690)**	(1,635)	(2,399)
	(25,733)	(8,129)	(51,677)
Effect of exchange rate changes on cash and cash equivalents	**(136)**	(209)	297
Net change in cash and cash equivalents	**375**	781	436
Cash and cash equivalents at beginning of year	**3,355**	2,574	2,138
Cash and cash equivalents at end of year (2)	**$ 3,730**	$ 3,355	$ 2,574
Cash disbursements made for:			
Interest	**$ 8,415**	$ 11,138	$ 14,544
Income taxes	**$ 1,795**	$ 1,234	$ 1,212

(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 nil (2009 – $523; 2008 – nil), net of cash and cash equivalents at the date of acquisition of $203 (2009 – $4; 2008 – $37), and net of non-cumulative preferred shares issued of nil (2009 – $250; 2008 – nil).

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

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 Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting policies conform, in all material respects, to Canadian GAAP. In addition, Note 31 describes and reconciles the significant measurement differences between Canadian and U.S. GAAP affecting the accompanying consolidated financial statements.

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

Certain comparative amounts have been reclassified to conform with current year presentation.

Changes in accounting standards and policies

There were no changes to accounting policies in the current fiscal year.

Prior year changes in accounting standards

Classification and impairment of financial assets

In August 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Recognition and Measurement standard to achieve substantial consistency with International Financial Reporting Standards (IFRS). The amendments were effective for the Bank commencing November 1, 2008 and adopted the definition of loans and receivables from IFRS. The definition of loans and receivables allows debt securities that are not quoted in an active market to be classified as loans and carried at amortized cost. The amendments require that only credit-related impairment charges be recognized in the Consolidated Statement of Income for debt securities carried at amortized cost. Impairment charges for debt securities classified as loans are recorded through the provision for credit losses. The reversal of impairment charges through the Consolidated Statement of Income for debt instruments classified as available-for-sale is allowed.

The Bank reclassified certain securities not quoted in an active market and not managed on a fair value basis to loans measured at amortized cost. Impairment of debt securities classified as loans are assessed and recorded in accordance with the Bank's accounting policies for Loans and Allowance for Credit Losses.

In accordance with these amendments, changes were made effective November 1, 2008. Periods prior to November 1, 2008 were not restated as a result of implementing these amendments. Refer to Note 4(a) for more details.

The following table summarizes the impact of the reclassifications as at November 1, 2008:

$ millions Balance sheet category	Increase/ (Decrease)
Securities	$ (8,529)
Loans	9,447
Future income tax assets (Other assets)	(323)
Accumulated other comprehensive income (after-tax)	595

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 introduced a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of instruments (refer to Note 26). 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

Effective November 1, 2008, the Bank adopted a new CICA accounting standard for 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.

Changes in accounting standards prior to November 1, 2008

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, not designated under the fair value option, to be reclassified 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. Details of the securities reclassified are provided in Note 3.

Basis of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Bank and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by the Bank, which are normally corporations in which the Bank owns more than 50% of the voting shares.

Investments where the Bank has significant influence, which is normally, but not always evidenced by direct or indirect ownership of between 20% and 50% of the voting shares, are accounted for using the equity method and are recorded as equity accounted investments in the Consolidated Balance Sheet. The Bank's share of earnings of such corporations is included in interest income – securities or other income, as appropriate, in the Consolidated Statement of Income.

The Bank consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is

insufficient to permit the entity to finance its activities without additional subordinated support from others; (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 price in an active market are recorded at cost.

Premiums, discounts and related transaction costs on available-for-sale debt securities are amortized over the expected life of the instrument to interest income – securities in the Consolidated Statement of Income using the effective interest method. When there has been a decline in value of available-for-sale debt or equity instrument that is other than temporary, the carrying value of the securities is reduced to fair value. Such reductions, if any, together with realized gains and losses on disposals, which are determined on an average cost basis, are reclassified from other comprehensive income and included in other income – net gain (loss) on securities, other than trading in the Consolidated Statement of Income.

Interest income on these securities are recognized thereafter using the revised effective interest rate applicable. Commencing November 1, 2008, recoveries in fair value due to events occurring after the date of impairment are included in net income to a maximum of the original impairment charge. Prior to fiscal 2009, these recoveries in fair value were included in other comprehensive income.

Trading securities are those securities intended to be held for a short period of time and are carried at fair value. Gains and losses realized on disposal and unrealized gains and losses due to market fluctuations are included in other income – trading revenues in the Consolidated Statement of Income.

Commencing November 1, 2008, debt securities which are not trading securities or have not been designated as available-for-sale, and that are not quoted in an active market are classified as loans. Debt securities classified as loans are carried at amortized cost.

The Bank accounts for the purchase and sale of securities using settlement date accounting for purposes of the Consolidated Balance Sheet and the Consolidated Statement of Income.

Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis in the Consolidated Statement of Income.

Obligations related to securities sold short

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

Transactions costs

The transaction costs relating to non-trading financial assets and non-trading financial liabilities are capitalized and, where applicable, these amounts are recognized in net interest income over the expected life of the instrument using the effective interest method. Transaction costs relating to trading financial assets and trading financial liabilities are immediately recognized in other income – trading revenue in the

Consolidated Statement of Income.

Loans

The definition of loans includes debt instruments that are not quoted in an active market and have fixed or determinable cash flows. As a result, certain debt securities which are not classified as trading securities or have not been designated as available-for-sale, and are not quoted in an active market are classified as loans on the Consolidated Balance Sheet. Prior to November 1, 2008, debt securities were not permitted to be classified as loans and were treated as either trading or available-for-sale securities.

Loans are accounted for at amortized cost, except those designated or classified as trading, which are carried at fair value.

Loans transacted after October 31, 2009 that are managed on a fair value basis or are purchased to economically hedge credit derivatives transacted for customers are classified as trading loans, and those outstanding as at October 31, 2009 are designated as trading (see Notes 4 and 27, respectively).

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in other assets in the Consolidated Balance Sheet. Loan origination costs are deferred and amortized into income using the effective interest method over the expected term of the loan. Loan fees are recognized in interest income over the appropriate lending or commitment period. Mortgage prepayment fees

are recognized in interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized using the effective interest method over the remaining period of the original mortgage. Loan syndication fees are included in credit fees in other income.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there no longer is reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such, unless the loan is fully secured, the collection of the debt is in process, and the collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status within 180 days from the date a payment has become contractually in arrears. Finally, a loan that is contractually 180 days in arrears is classified as impaired in all situations, except when it is guaranteed or insured by the Canadian government, the provinces or a Canadian government agency; such loans are classified as impaired if the loan is contractually in arrears for 365 days. Any credit card loan that has a payment that is contractually 180 days in arrears is written off.

When a loan is classified as impaired, recognition of interest ceases. Interest received on impaired loans is credited to the carrying value of the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

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

Allowance for credit losses

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

Specific allowances

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

General allowance

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

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

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

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

While the total general allowance is established through a step-by-step process that considers risk arising from specific segments of the portfolio, the resulting total general allowance is available to absorb all incurred losses in the loan portfolio for which there has been no specific 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 six reporting units and any potential goodwill impairment is identified by comparing the carrying value of a reporting unit with its fair value. If any potential impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities. The fair value of the reporting units is determined using an internally developed valuation model using a market approach. The market approach considers various factors including normalized earnings, projected forward earnings and price earnings multiples.

Effective November 1, 2008, other intangible assets include certain software costs previously recorded as Land, buildings and equipment.

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, 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" are those used to manage the Bank's non-trading interest rate, foreign currency and other exposures. These include instruments that meet specified criteria to be designated as hedges for accounting purposes.

All derivatives, including embedded derivatives for which separate accounting is required, are recorded at fair value in the Consolidated Balance Sheet. The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the

instruments. Inception gains or losses on derivatives are only recognized where the valuation is dependent on observable market data, otherwise, they are deferred over the life of the related contract, or until the valuation inputs become observable. The gains and losses resulting from changes in fair values of trading derivatives are included in other income – trading revenues in the Consolidated Statement of Income.

Changes in the fair value of asset/liability management derivatives that do not qualify for hedge accounting are carried at fair value in the Consolidated Balance Sheet, and subsequent changes in their fair values are recorded in the Consolidated Statement of Income as follows: interest-related contracts in net interest income; options used in managing non-trading securities in net gain (loss) on securities, other than trading; and other derivative contracts in other income – other. Where derivative instruments are used to manage the volatility of stock-based compensation, these derivatives are carried at fair value with changes in the fair value included in salaries and employee expense in the Consolidated Statement of Income.

Hedge accounting

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking these derivatives to specific assets and liabilities on the Consolidated Balance Sheet or to specific firm commitments or forecasted transactions.

The Bank also formally assesses both at a hedge's inception and on an ongoing basis whether the derivatives used in hedging transactions are highly effective in offsetting changes in the fair value or cash flows of hedged items.

Hedge ineffectiveness is measured and recognized in the Consolidated Statement of Income. When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the original hedge, or when the hedged item is derecognized. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value without any offset from the hedged item.

There are three types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges.

Fair value hedges

For fair value hedges, the change in fair value of the hedging derivative is offset in the Consolidated Statement of Income by the change in fair value of the hedged item relating to the hedged risk. The Bank utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate exposures. The main financial instruments designated as fair value hedged items include debt securities, loans, deposit liabilities and subordinated debentures.

Cash flow hedges

For cash flow hedges, the change in fair value of the hedging derivative is recorded in other comprehensive income, to the extent it is effective, until the hedged item affects the Consolidated Statement of Income. The Bank utilizes cash flow hedges primarily to convert floating rate deposit liabilities to fixed rate exposures.

Net investment hedges

For net investment hedges, the change in fair value of the hedging instrument, to the extent effective, is recorded in other comprehensive income. The Bank designates foreign currency liabilities and derivatives as hedging instruments. These amounts are recognized in income when the corresponding cumulative translation adjustments from self-sustaining foreign operations are recognized in income.

Employee future benefits

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

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

Past service costs, from plan amendments that impact previously earned employee benefits, are amortized on a straight-line basis over the estimated average remaining period to full benefit eligibility for active employees. For the Bank's principal pension plans, these periods range from 10 to 20 years. For principal other benefit plans, these periods range from 8 to 27 years. If the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of the year, the excess above this 10% threshold is generally amortized over the estimated average remaining service period of employees. For the Bank's principal pension plans and principal other benefit plans, these periods range from 10 to 20 years and from 8 to 27 years, respectively. A pension valuation allowance is recognized if the prepaid benefit expense (the cumulative difference between pension income/expense and funding contributions) is more than the Bank's expected future benefit.

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

Certain employees outside of Canada participate in defined contribution pension plans. The costs for such plans are equal to Bank contributions made to employees' accounts during the year.

Stock-based compensation

The Bank has stock option plans and other stock-based compensation plans for certain eligible employees and non-officer directors that are described more fully in Note 18.

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

Stock options that do not contain the tandem share appreciation features require settlement in shares only. These stock options are expensed on a graded vesting basis using the grant date fair-value (Black-Scholes pricing model) and are recorded in salaries and employee benefits expense in the Consolidated Statement of Income with a corresponding credit to contributed surplus in the Consolidated Balance Sheet. If the employee exercises the option, both the exercise price proceeds together with the amount recorded in contributed surplus are credited to common shares in the Consolidated Balance Sheet.

For stock options granted prior to November 1, 2002, the Bank accounts for these options using the intrinsic method. Under this method, the

Bank does not recognize any compensation expense, since the exercise price was set at an amount equal to the closing price on the day prior to the grant of the stock options. When these stock options are exercised, the proceeds received by the Bank are credited to common shares in the Consolidated Balance Sheet.

The Bank's other stock-based compensation plans are accounted for in a similar manner as stock options with Tandem SAR features, except that other stock-based compensation expense is recognized evenly over an applicable vesting period.

For SARs, including Tandem SARs and other stock-based compensation, the Bank recognizes i) the compensation costs attributable to stock-based compensation awards granted to employees who are eligible to retire on the grant date immediately on the grant date; and ii) compensation costs attributable to stock-based compensation awards granted to employees who will become eligible to retire during the vesting period over the timeframe between the grant date and the date of retirement eligibility.

Stock options granted to non-officer directors do not have Tandem SAR features.

Earnings per share (EPS)

Basic EPS is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted-average number of diluted common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted EPS is determined using the treasury stock method. The treasury stock method determines the number of incremental common shares by assuming that the outstanding stock options, whose exercise price is less than the average market price of the Bank's common stock during the period, are exercised and the proceeds used to purchase common shares at the average market price. The incremental number of common shares is included in the calculation of diluted shares.

Guarantees

A liability is recorded for the fair value of the obligation assumed at the inception of certain guarantees. The guarantees affected include standby letters of credit, letters of guarantee, credit enhancements and other similar contracts. The fair value of the obligation at inception is generally based on the discounted cash flow of the premium to be received for the guarantee, resulting in a corresponding asset.

2 Future accounting changes

The following summarizes future accounting changes that will be relevant to the Bank's consolidated financial statements subsequent to October 31, 2010.

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)

International Financial Reporting Standards will replace current Canadian GAAP for publicly accountable enterprises beginning in 2011. 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 impact of IFRS on the Bank's consolidated financial results at the time of transition is dependent upon prevailing business circumstances, market factors and economic conditions at that time, as well as the accounting elections that have not yet been made. As a result, the transition impact is not reasonably determinable at this time.

3 Securities

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

As at October 31 ($ millions)	Remaining term to maturity: Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	2010 Carrying value	2009 Carrying value
Trading securities:							
Canadian federal government debt	$ 870	$ 3,418	$ 6,988	$ 6,851	$ —	**$ 18,127**	$ 18,402
Canadian provincial and municipal debt	980	720	905	1,882	—	**4,487**	4,740
U.S. treasury and other U.S. agencies' debt	1	682	2,096	2,286	—	**5,065**	2,699
Other foreign governments' debt	576	996	2,186	997	—	**4,755**	1,564
Common shares	—	—	—	—	22,264	**22,264**	19,698
Other	1,398	1,382	5,687	1,519	—	**9,986**	10,964
Total	3,825	7,198	17,862	13,535	22,264	**64,684(1)**	58,067(1)
Available-for-sale securities:							
Canadian federal government debt	8	2,730	6,331	23	—	**9,092**	11,602
Mortgage-backed securities(2)	112	830	17,430	209	—	**18,581**	21,384
Canadian provincial and municipal debt	—	—	1,115	16	—	**1,131**	1,184
U.S. treasury and other U.S. agencies' debt	435	26	94	685	—	**1,240**	701
Other foreign governments' debt	966	916	2,038	1,785	—	**5,705**	7,989
Bonds of designated emerging markets	—	—	62	250	—	**312**	445
Other debt	634	2,233	3,736	1,603	—	**8,206**	9,599
Preferred shares	—	—	—	—	475	**475**	421
Common shares(3)	—	—	—	—	2,486	**2,486**	2,374
Total	2,155	6,735	30,806	4,571	2,961	**47,228**	55,699
Equity accounted investments:	—	—	—	—	4,651(4)	**4,651**	3,528
Total securities	$ 5,980	$ 13,933	$ 48,668	$ 18,106	$ 29,876	**$116,563**	$117,294
Total by currency (in Canadian equivalent):							
Canadian dollar	$ 2,691	$ 8,896	$ 37,519	$ 11,262	$ 23,667	**$ 84,035**	$ 86,246
U.S. dollar	1,176	2,095	5,916	4,082	3,685	**16,954**	16,209
Mexican peso	1,051	338	1,008	325	140	**2,862**	2,176
Other currencies	1,062	2,604	4,225	2,437	2,384	**12,712**	12,663
Total securities	$ 5,980	$ 13,933	$ 48,668	$ 18,106	$ 29,876	**$116,563**	$117,294

(1) Includes $444 (2009 – $278) in mortgage-backed securities.

(2) Includes NHA mortgage-backed securities created and retained by the Bank. The outstanding balance of these mortgage-backed securities is $17,809 (2009 – $20,864). 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 $918 (2009 – $958).

(4) Equity accounted investments have no stated term, and as a result, have been classified in the "No specific maturity" column.

In accordance with CICA amendments to the accounting standard on Financial Instruments – Recognition and Measurement discussed in Note 1, the Bank reclassified certain trading securities to available-for-sale securities effective August 1, 2008. These assets were comprised of $303 million of bond assets and $91 million of preferred shares that were no longer traded in an active market and which management intends to hold for the foreseeable future. As of the reclassification date, the weighted average effective interest rate on the reclassified bond asset portfolio was 4.0%, with expected recoverable cash flows of $366 million.

As at October 31, 2010, the fair values of the remaining bond assets and preferred shares were $128 million (2009 – $257 million) and $52 million (2009 – $67 million) respectively. Due to the reclassification of the bond assets and preferred shares, for the year ended October 31, 2010, the Bank recorded after-tax gains in other comprehensive income of $9 million (2009 – gains of $26 million; 2008 – losses of $21 million) and $3 million (2009 – gains of $6 million; 2008 – losses of $7 million), respectively, relating to fair value movements. If the reclassifications of these bond assets and preferred shares had not been made, pre-tax gains of $12 million (2009 – gains of $33 million; 2008 – losses of $26 million) and $4 million (2009 – gains of $9 million; 2008 – losses of $10 million), respectively, would have been recorded in the Consolidated Statement of Income.

(b) An analysis of unrealized gains and losses on available-for-sale securities is as follows:

As at October 31 ($ millions)	2010 Cost(1)	2010 Gross unrealized gains	2010 Gross unrealized losses	2010 Fair value	2009 Cost(1)	2009 Gross unrealized gains	2009 Gross unrealized losses	2009 Fair value
Canadian federal government debt	**$ 8,927**	**$ 166**	**$ 1**	**$ 9,092**	$11,507	$ 163	$ 68	$11,602
Mortgage-backed securities(2)	**18,100**	**494**	**13**	**18,581**	20,972	488	76	21,384
Canadian provincial and municipal debt	**1,102**	**29**	**—**	**1,131**	1,164	20	—	1,184
U.S. treasury and other U.S. agencies' debt	**1,226**	**18**	**4**	**1,240**	706	9	14	701
Other foreign governments' debt	**5,458**	**287**	**40**	**5,705**	7,703	321	35	7,989
Bonds of designated emerging markets	**180**	**132**	**—**	**312**	270	175	—	445
Other debt	**8,132**	**217**	**143**	**8,206**	9,609	224	234	9,599
Preferred shares	**488**	**24**	**37**	**475**	544	17	140	421
Common shares	**2,198**	**320**	**32**	**2,486**	2,211	224	61	2,374
Total available-for-sale securities	**$ 45,811**	**$ 1,687**	**$ 270**	**$47,228**	$54,686	$ 1,641	$ 628	$55,699

(1) Cost for debt securities is amortized cost.

(2) Includes NHA mortgage-backed securities created and retained by the Bank.

The net unrealized gain on available-for-sale securities of $1,417 million (2009 – $1,013 million) decreases to a net unrealized gain of $1,189 million (2009 – decreases to $828 million) after the net fair value of derivative instruments and other hedge amounts associated with these securities are taken into account. The net unrealized gain on available-for-sale securities is recorded in accumulated other comprehensive income.

(c) An analysis of available-for-sale securities with continuous unrealized losses:

As at October 31 ($ millions)	2010 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	**$ 893**	**$ 892**	**$ 1**	**$ —**	**$ —**	**$ —**	**$ 893**	**$ 892**	**$ 1**
Mortgage-backed securities	**97**	**96**	**1**	**461**	**449**	**12**	**558**	**545**	**13**
Canadian provincial and municipal debt	**10**	**10**	**—**	**—**	**—**	**—**	**10**	**10**	**—**
U.S. treasury and other U.S. agencies' debt	**102**	**99**	**3**	**10**	**9**	**1**	**112**	**108**	**4**
Other foreign governments' debt	**1,800**	**1,775**	**25**	**73**	**58**	**15**	**1,873**	**1,833**	**40**
Other debt	**1,269**	**1,255**	**14**	**2,286**	**2,157**	**129**	**3,555**	**3,412**	**143**
Preferred shares	**2**	**2**	**—**	**346**	**309**	**37**	**348**	**311**	**37**
Common shares	**242**	**227**	**15**	**99**	**82**	**17**	**341**	**309**	**32**
Total	**$4,415**	**$4,356**	**$ 59**	**$3,275**	**$3,064**	**$ 211**	**$7,690**	**$7,420**	**$ 270**

As at October 31 ($ 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
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
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, 2010, the cost of 549 (2009 – 667) available-for-sale securities exceeded their fair value by $270 million (2009 – $628 million). This unrealized loss is recorded in accumulated other comprehensive income as part of unrealized gains (losses) on available-for-sale securities.

Of the 549 (2009 – 667) securities, 225 (2009 – 340) have been in an unrealized loss position continuously for more than a year, amounting to an unrealized loss of $211 million (2009 – $376 million). The unrealized losses on the debt instruments decreased from last year due to changes in interest rates and improvements in credit spreads. The Bank holds a diversified portfolio of available-for-sale equities. For these investments, continued improvements in equity markets have reduced the unrealized losses during the year. 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)	2010	2009	2008
Realized gains	**$ 790**	$ 593	$ 666
Realized losses	**304**	316	401
Impairment writedowns(2)	**131**	689	639
Net gain (loss) on securities, other than trading	**$ 355**	$ (412)	$ (374)

(1) The net gain (loss) on securities, other than trading mainly relates to available-for-sale securities and equity accounted investments.

(2) Impairment writedowns are comprised of $107 from equity securities (2009 – $546; 2008 – $150) and $24 from debt securities (2009 – $143; 2008 – $489).

Net gains realized on available-for-sale equity securities which did not have a quoted market price were $60 million for the year ended October 31, 2010 (2009 – $28 million; 2008 – $69 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)	2010	2009
Canada:		
Residential mortgages	**$104,546**	$ 88,766
Personal and credit cards	**49,657**	49,266
Business and government	**35,520**	33,540
	189,723	171,572
United States:		
Personal	**3,864**	2,879
Business and government	**17,149**	17,669
	21,013	20,548
Mexico:		
Residential mortgages	**3,686**	3,357
Personal and credit cards	**1,987**	2,214
Business and government	**4,725**	4,742
	10,398	10,313
Other International:		
Residential mortgages	**12,250**	9,481
Personal and credit cards	**7,040**	6,689
Business and government	**46,587**	50,569
	65,877	66,739
	287,011	269,172
Less: allowance for credit losses	**2,787**	2,870
Total(2)(3)(4)	**$284,224**	$266,302

(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 $57,508 (2009 – $56,283), loans denominated in Mexican pesos amount to $8,554 (2009 – $8,247) and loans denominated in other foreign currencies amount to $33,822 (2009 – $33,238).

(3) In addition to loans designated as trading (see Note 27), the fair value of the Bank's loans transacted after October 31, 2009 and classified as trading was $1,300. These trading loans were included in Business and Government.

(4) The Bank reclassified debt instruments with a fair value of $8,529 and an amortized cost of $9,447 from available-for-sale securities to loans effective November 1, 2008. These debt instruments included consumer auto-based securities, other auto-based securities, cash-based collateralized loan and debt obligations, and a specific portfolio of government and corporate bonds held by one of the Bank's international units. The carrying value of the reclassified securities as at October 31, 2010 was $4,110 (2009 – $7,799), of which $2,817 was included in Personal (2009 – $6,257).

(b) Loans and acceptances by type of borrower

	2010		2009	
As at October 31 ($ millions)	Balance	% of total	Balance	% of total
Personal				
Residential mortgages	**$120,260**	**41.0%**	$101,363	36.5%
Credit cards	**10,781**	**3.7**	11,104	4.0
Personal loans	**51,101**	**17.4**	49,256	17.8
	$182,142	**62.1%**	$161,723	58.3%
Businesses and government				
Financial services	**19,269**	**6.6**	18,760	6.8
Wholesale and retail	**10,360**	**3.5**	10,853	3.9

Real estate	**10,679**	**3.6**	11,677	4.2
Oil and gas	**9,334**	**3.2**	9,777	3.5
Transportation	**7,008**	**2.4**	7,763	2.8
Automotive	**5,163**	**1.8**	5,074	1.8
Agriculture	**4,519**	**1.5**	4,344	1.6
Government	**4,170**	**1.4**	3,326	1.2
Hotels and leisure	**4,085**	**1.4**	4,766	1.7
Mining and primary metals	**5,252**	**1.8**	5,745	2.1
Utilities	**5,041**	**1.7**	6,138	2.2
Health care	**3,970**	**1.3**	3,986	1.4
Telecommunications and cable	**3,728**	**1.3**	4,567	1.6
Media	**1,899**	**0.7**	2,729	1.0
Chemical	**1,239**	**0.4**	1,338	0.5
Food and beverage	**2,834**	**1.0**	3,788	1.4
Forest products	**1,109**	**0.4**	1,528	0.6
Other	**11,449**	**3.9**	9,497	3.4
	$111,108	**37.9%**	$115,656	41.7%
	293,250	**100.0%**	277,379	100.0%
General allowance	**(1,410)**		(1,450)	
Sectoral allowance	**—**		(44)	
Total loans and acceptances	**$291,840**		$275,885	

(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 22.9% (2009 – 22.5%; 2008 –20.0%), an excess spread of 1.2% (2009 – 1.8%; 2008 – 1.4%), and a discount rate of 1.7% (2009 – 2.4%; 2008 – 3.9%). No credit losses are expected as the mortgages are insured. The following table summarizes the Bank's sales.

For the year ended October 31 ($ millions)	2010	2009	2008
Net cash proceeds(1)	**$ 3,762**	$ 11,879	$ 5,121
Retained interest	**103**	480	165
Retained servicing liability	**(22)**	(69)	(30)
	3,843	12,290	5,256
Residential mortgages securitized(2)	**3,770**	11,953	5,174
Net gain on sale(3)	**$ 73**	$ 337	$ 82

(1) Excludes insured mortgages which were securitized and retained by the Bank during the year of $4,309 (2009 – $20,923; 2008 – $3,885). These assets are classified as available-for-sale securities and have an outstanding balance of $17,809 (2009 – $20,864; 2008 – $6,054) [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 $960 (2009 – $2,126; 2008 – 1,299).

(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)	2010	2009
Fair value of the retained interest ($)	**404**	519
Weighted average life (in years)	**3**	3
Prepayment rate (%)	**22.3**	22.8
Impact on fair value of a 10% adverse change ($)	**(11)**	(17)
Impact on fair value of a 20% adverse change ($)	**(22)**	(33)
Residual cash flow annual discount rate (%)	**1.19-2.42**	0.35-2.8
Impact on fair value of a 10% adverse change ($)	**(1)**	(1)
Impact on fair value of a 20% adverse change ($)	**(2)**	(3)
Excess spread (%)	**1.8**	1.8
Impact on fair value of a 10% adverse change ($)	**(41)**	(55)
Impact on fair value of a 20% adverse change ($)	**(82)**	(109)

The sensitivity measures above are hypothetical and should be used with caution. Other sensitivity estimates should not be extrapolated from those presented above since the relationship between the change in the assumption to the change in fair value is not linear. In addition, changes in a particular assumption and the effect on the fair value of the retained interest is calculated without changing any other assumption; however, the factors are not independent and the actual effects could be magnified or counteracted from the sensitivities presented. Information on total securitized loan assets(1) is summarized as follows:

	2010			2009			2008		
($ 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)	**$ 16,033**	**$ 19**	**$ —**	$ 17,494	$ 35	$ —	$ 12,787	$ 14	$ —
Personal loans(3)	**10**	**1**	**4**	199	3	3	235	6	4
Total	**$ 16,043**	**$ 20**	**$ 4**	$ 17,693	$ 38	$ 3	$ 13,022	$ 20	$ 4

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

(2) Excludes past due payments relating to residential mortgages insured by Canada Mortgage and Housing Corporation of $15 (2009 – $19; 2008 – $9).

(3) 2009 and 2008 included a revolving securitization facility that matured in 2010 (refer to Note 24a).

(d) Loans past due but not impaired (1)

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than 90 days past due, or fully secured and collection efforts are reasonably expected to result in repayment, or restoring it to a current status in accordance with the Bank's policy.

	2010				2009			
As at October 31 ($ millions)	31 - 60 days	61 - 90 days	91 days and greater	Total	31 - 60 days	61 - 90 days	91 days and greater	Total
Residential mortgages	**$ 1,403**	**$ 466**	**$ 202**	**$ 2,071**	$ 1,173	$ 463	$ 302	$ 1,938

Personal and credit cards	**398**	**207**	**58**	**663**	429	220	61	710
Business and government	**513**	**208**	**189**	**910**	342	201	168	711
Total	**$ 2,314**	**$ 881**	**$ 449**	**$ 3,644**	$ 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]	2010 Net	2009 Net
By loan type:				
Residential mortgages	$ 1,694	$ 222	**$ 1,472**	$ 878
Personal and credit cards	756	666	**90**	193
Business and government	1,971	489	**1,482**	1,492
Total	$ 4,421[3][4]	$ 1,377	**$ 3,044**	$ 2,563
By geography:				
Canada			**$ 642**	$ 719
United States			**154**	354
Other International			**2,248**	1,490
Total			**$ 3,044**	$ 2,563

(1) Gross impaired loans denominated in U.S. dollars amounted to $1,122 (2009 – $1,057) and those denominated in other foreign currencies amounted to $458 (2009 – $1,680).

(2) The specific allowance for impaired loans evaluated on an individual basis totalled $485 (2009 – $446).

(3) Individual impaired loans without an allowance for credit losses totalled $1,039 (2009 – $616).

(4) Average balance of gross impaired loans totalled $4,642 (2009 – $3,402).

Loans purchased as part of the acquisition of R-G Premier Bank of Puerto Rico are subject to loss share agreements with the Federal Deposit Insurance Corporation (FDIC). The credit losses related to these loans are determined net of the amount expected to be reimbursed by the FDIC. As at October 31, 2010, the fair value of loans guaranteed by FDIC were $3.6 billion with a net receivable of $852 million from FDIC.

The loans purchased with related indemnification assets are recorded at fair value at the acquisition date. No allowance for credit losses is recorded at the acquisition date as credit losses are included in the determination of the fair value. Purchased impaired loans are reported as impaired loans. The preliminary purchase price allocation for the R-G Premier Bank acquisition was recorded in the fourth quarter. As a result, impaired loans at October 31, 2010 include $553 million representing the estimate of the fair value of impaired loans purchased as part of the R-G Premier Bank acquisition.

(b) Allowance for credit losses

As at October 31 ($ millions)	2010 Balance at beginning of year	Write-offs[1]	Recoveries	Provision for credit losses	Other, including foreign currency adjustment[2]	Balance at end of year	2009 Balance at end of year	2008 Balance at end of year
Specific								
Residential mortgages	**$ 241**	**$ (82)**	**$ 18**	**$ 104**	**$ (59)**	**$ 222**	$ 241	$ 232
Personal and credit cards	**688**	**(1,156)**	**178**	**972**	**(16)**	**666**	688	608
Business and government	**452**	**(347)**	**68**	**247**	**78**	**498**	452	471
	1,381	**(1,585)**	**264**	**1,323**	**3**	**1,386**[3]	1,381[3]	1,311[3]
Sectoral[4]	**44**	**—**	**—**	**(44)**	**—**	**—**	44	—
General[5]	**1,450**	**—**	**—**	**(40)**	**—**	**1,410**	1,450	1,323
	$ 2,875	**$ (1,585)**	**$ 264**	**$ 1,239**	**$ 3**	**$ 2,796**	$ 2,875	$ 2,634

(1) Loans restructured during the year amounted to $216 (2009 – $91). Write-offs of loans restructured during the year were $33 (2009 – nil; 2008 – nil).

(2) Includes $14 in specific allowances related to acquisitions in 2010, $9 in specific allowances from acquisitions in 2009, and $232 in specific allowances and $25 in general allowances from acquisitions in 2008.

(3) As at October 31, 2010 $9 (2009 – $5; 2008 – $8) has been recorded in other liabilities.

(4) The sectoral allowance was established to reflect the deterioration in the automotive industry sector, within the business and government category.

(5) The general allowance amount is primarily attributable to business and government loans ($1,262), with the remainder allocated to personal and credit cards ($95) and residential mortgages ($53). The specific allowance for credit losses for personal loans, credit cards and mortgages is formula-based and also reflects incurred but not yet identified losses. The $40 reduction of the general allowance in 2010 was attributable to an improvement in the credit quality of the portfolio, and to a lesser extent, a stronger Canadian dollar.

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)	2010 Total assets	2009 Total assets
Funding vehicles	**$ 8,874**	$ 2,585
Other	**306**	51

The Bank uses funding vehicles to facilitate cost-efficient financing of its own operations. Activities of these special purpose entities are generally limited to holding a pool of assets or receivables generated by the Bank and used to finance distributions to their investors.

During the year, the Bank issued covered bonds for US$5.0 billion. Scotia Covered Bond Trust (SCB Trust) guarantees payments under the Bank's covered bond program. Canada Mortgage and Housing Corporation insured residential mortgages are the primary assets held by SCB Trust which is a VIE. The Bank consolidates SCB Trust as it is exposed to a majority of variability of its assets. Total assets in SCB Trust were $7.7 billion as at October 31, 2010 (refer to Note 24(d)).

The assets supporting the obligations of the consolidated VIEs as at October 31, 2010 are as follows: cash and non-interest bearing deposits with banks of $304 million (2009 – $10 million); Canadian residential mortgage loans of $8,446 million (2009 – $2,523 million); trading securities of $241 million (2009 – $53 million); and other assets of $189 million (2009 – $50 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.

	2010		2009	
As at October 31 ($ millions)	Total assets	Maximum exposure to loss	Total assets	Maximum exposure to loss
Multi-seller conduits that the Bank administers	**$ 4,106**	**$ 4,106**	$ 5,913	$ 5,913
Structured finance entities	**3,117**	**2,048**	7,088	4,975
Collateralized debt obligation entities	**63**	**23**	556	307
Other	**669**	**166**	691	188

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 $2.2 billion (2009 – $5.5 billion), primarily its interest in the VIEs, on its Consolidated Balance Sheet as at October 31, 2010.

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, where applicable, transferred by the conduit at the conduit's original cost as reflected in the table above. As well, in some instances the Bank is counterparty to derivative contracts with these conduit programs and provides them with a large portion of their backstop liquidity and partial credit enhancement facilities [see Note 24]. The Bank provides additional liquidity facilities to these multi-seller conduits to a maximum amount of $3.9 billion (2009 – $3.8 billion) based on future asset purchases by these conduits.

During fiscal 2010 and 2009, there were no changes to the obligations of the subordinated note holder and no reconsideration events have occurred.

Structured finance entities

This includes special purpose entities used to assist corporate clients in accessing cost-efficient financing through their securitization structures. The decrease from the prior year is a result of regular amortizations and paydowns on or before maturity.

Collateralized debt obligation entities

The Bank holds an interest in VIEs structured to match specific investor requirements. Loans or credit derivatives are held by the VIEs to create security offerings for investors that match their investment needs and preferences. The Bank's maximum exposure to loss includes the credit risk amounts relating to derivative contracts with these VIEs. The decrease from the prior year is primarily due to early maturity and termination of certain entities.

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

			2010	2009
As at October 31 ($ millions)	Cost	Accumulated depreciation & amortization	**Net book value**	Net book value
Land	$ 328	$ —	**$ 328**	$ 350
Buildings	1,915	716	**1,199**	1,077
Equipment	2,965	2,440	**525**	546
Leasehold improvements	1,066	668	**398**	399
Total	$ 6,274	$ 3,824	**$ 2,450**	$ 2,372

Depreciation and amortization in respect of the above buildings, equipment, and leasehold improvements for the year amounted to $236 million (2009 –$234 million; 2008 – $209 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	2010	2009	2008
Balance at beginning of year	$ 806	$ 1,974	$ 128	**$ 2,908**	$ 2,273	$ 1,134
Acquisitions	18	263	—	**281**	603	925
Effects of foreign exchange and other	5	(136)	(8)	**(139)**	32	214
Balance at end of year	$ 829	$ 2,101	$ 120	**$ 3,050**	$ 2,908	$ 2,273

Goodwill was assessed for impairment as at October 31, 2010, based on the six reporting units, and no impairment charge was recorded.

Intangible assets

As at October 31 ($ millions)	Gross carrying amount	Accumulated amortization	2010 Net	2009 Net	2008 Net
Computer software	$ 448	$ 91	**$ 357**	$ 301	$ 239(1)
Other intangible assets	643	411	**232**	260	282
Total	$ 1,091	$ 502	**$ 589**	$ 561	$ 521

(1) On November 1, 2008, with the adoption of the CICA's new accounting standard for Goodwill and Intangible Assets discussed in Note 1, $239 was reclassified from Land, building and equipment to Other intangible assets, effective October 31, 2008.

Other intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense of total intangible assets for the year ended October 31, 2010, was $98 million (2009 – $96 million; 2008 – $83 million).

9 Other assets

As at October 31 ($ millions)	2010	2009
Accrued interest	**$ 1,447**	$ 1,817
Accounts receivable	**1,565**	1,422
Future income tax assets (Note 19)	**2,219**	2,577
Receivable from brokers, dealers and clients	**292**	265
Pension assets(1) (Note 20)	**1,612**	1,463
Other(2)	**4,231**	2,909
Total	**$ 11,366**	$ 10,453

(1) Includes only principal plans.

(2) Includes a receivable of $852 (2009 – nil) from the Federal Deposit Insurance Corporation related to the Bank's acquisition of R-G Premier Bank of Puerto Rico.

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	2010	2009
Personal	$ 4,396	$ 3,403	$ 48,661	$ 72,390	**$128,850**	$123,762
Business and government(1)	34,128	13,137	18,362	145,060	**210,687**	203,594
Banks	168	409	651	20,885	**22,113**	23,063
Total	$ 38,692	$ 16,949	$ 67,674	$ 238,335	**$361,650**	$350,419
Recorded in:						
Canada					**242,483**	223,961
United States					**49,238**	58,082
Mexico					**9,206**	8,776
Other International					**60,723**	59,600
Total(2)					**$361,650**	$350,419

(1) Includes deposit notes issued by the Bank to Scotiabank Capital Trust of $2,250 (2009 – $2,250), Scotiabank Subordinated Notes Trust of $1,000 (2009 – $1,000) and Scotiabank Tier 1 Trust of $650 (2009 – $650) [refer to Note 13].

(2) Deposits denominated in U.S. dollars amount to $122,752 (2009 – $116,453), deposits denominated in Mexican pesos amount to $8,389 (2009 – $7,897) and deposits denominated in other foreign currencies amount to $31,386 (2009 – $37,178).

11 Other liabilities

As at October 31 ($ millions)	2010	2009

Accrued interest	**$ 2,031**	$ 2,190
Accounts payable and accrued expenses	**5,274**	5,334
Deferred income	**680**	627
Future income tax liabilities (Note 19)	**444**	337
Gold and silver certificates and bullion	**5,153**	3,856
Margin and collateral accounts	**3,360**	4,126
Payable to brokers, dealers and clients	**58**	179
Other liabilities of subsidiaries and VIEs (1)(2)	**8,535**	4,634
Pension liabilities(3) (Note 20)	**235**	226
Other	**3,177**	3,173
Total	**$ 28,947**	$24,682

(1) Excludes deposits and capital instrument liabilities.

(2) Includes a note liability of $2,850 from the Federal Deposit Insurance Corporation related to the Bank's acquisition of R-G Premier Bank of Puerto Rico.

(3) Includes only principal plans.

12 Subordinated debentures

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

As at October 31 ($ millions)			2010		2009
Maturity date	Interest rate (%)	Terms (1)	Par value	Carrying value(2)	Carrying value(2)
September 2013	8.30	Redeemable at any time	**$ 250**	**$ 251**	$ 251
January 2018	5.30	Redeemable at any time. After January 31, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1.90%	**300**	**300**	300
March 2018	4.99	Redeemable at any time. After March 27, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 2%	**1,700**	**1,722**	1,719
October 2018	6.00	Redeemable at any time. After October 3, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 3.25%	**950**	**950**	950
April 2019	4.94	Redeemable at any time. After April 15, 2014, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 4.24%	**1,000**	**1,000**	1,000
January 2021	6.65	Redeemable at any time. After January 22, 2016, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 5.85%	**1,000**	**1,000**	1,000
June 2025	8.90	Redeemable at any time	**250**	**270**	271
November 2037	3.015	JPY ¥10 billion. Redeemable on November 20, 2017	**127**	**134**	128
April 2038	3.37	JPY ¥10 billion. Redeemable on April 9, 2018	**127**	**137**	128
August 2085	Floating	US $172 million bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%. Redeemable on any interest payment date. Total repurchases in fiscal 2010 amounted to approximately US $10 million (fiscal 2009 - US $32 million)	**175**	**175(3)**	197(3)
			$ 5,879	**$ 5,939**	$ 5,944

The contractual maturities of the debentures are summarized in Note 25(b).

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

(2) The carrying value of subordinated debentures may differ from par value due to adjustments related to hedge accounting.

(3) For the year ended October 31, 2010, the Bank recorded a net realized gain of $4 (2009 – $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)	2010	2009
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**	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 Notes 14 and 15 — Restrictions on dividend payments]. Under the circumstances outlined in (f) below the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series 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 (refer to Note 30 Subsequent events).

(b) On April 30, 2002, Scotiabank Capital Trust, a wholly-owned open-end trust, issued 750,000 Scotiabank Trust Securities — Series 2002-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $33.13 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series W of the Bank. The Series W shares will be entitled to cash dividends payable semi-annually in an amount of $0.53125 per $25.00 share. Under the circumstances outlined in (f) below the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series X of the Bank. The Series X shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.70 per $25.00 share [refer to Notes 14 and 15 — Restrictions on dividend payments]. In certain circumstances, on or after December 31, 2012, the Non-cumulative Preferred Shares Series W and the Non-cumulative Preferred Shares Series X are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series X of the Bank, then the Bank would become the sole beneficiary of the Trust.

(c) On February 13, 2003, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities - Series 2003-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $31.41 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series U of the Bank. The Series U shares will be entitled to cash dividends payable semi-annually in an amount of $0.50 per $25.00 share. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares Series V of the Bank. The Series V shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.61250 per $25.00 share [refer to Notes 14 and 15 — Restrictions on dividend payments]. In certain circumstances on or after December 31, 2013, the Non-cumulative Preferred Shares Series U and the Non-cumulative Preferred Shares Series V are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series V of the Bank, then the Bank would become the sole beneficiary of the Trust.

(d) On September 28, 2006, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities - Series 2006-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of $28.25 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash prior to December 30, 2011, upon the occurrence of certain tax or regulatory capital changes, or on or after December 30, 2011, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series S of the Bank. The Series S shares will be entitled to cash dividends payable semi-annually in an amount of $0.4875 per $25.00 share [refer to Notes 14 and 15 - Restrictions on dividend payments]. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series T of the Bank. The Series T shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of $0.625 per $25.00 share. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series T of the Bank, then the Bank would become the sole beneficiary of the Trust.

(e) On May 7, 2009, Scotiabank Tier 1 Trust issued 650,000 Scotiabank Tier 1 Securities Series 2009-1 (Scotia BaTS III). These securities qualify as Tier 1 capital. Interest is payable semi-annually in the amount of $39.01 per Scotia BaTS III Series 2009-1 on the last day of June and December until June 30, 2019. After June 30, 2019 and on every fifth anniversary thereafter until June 30, 2104, the interest rate on the Scotia BaTS III Series 2009-1 will be reset at an interest rate per annum equal to the then prevailing 5-year Government of Canada Yield plus 7.05%. On or after June 30, 2014, the Trust may, at its option redeem the Scotia BaTS III Series 2009-1, in whole or in part, subject to regulatory approval. Under the circumstances outlined in (f) below, the Scotia BaTS III Series 2009-1, including accrued and unpaid interest thereon, would be exchanged automatically without the consent of the holder, into newly issued non-cumulative Preferred Shares Series R of the Bank. In addition, in certain circumstances, holders of Scotia BaTS III Series 2009-1 may be required to invest interest paid on the Scotia BaTS III Series 2009-1 in a series of newly-issued preferred shares of the Bank with non-cumulative dividends (each such series is referred to as Bank Deferral Preferred Shares). The proceeds of the issue were used to acquire the Series 2009-1 Bank Deposit Note. If there is an automatic exchange of the Scotia BaTS Preferred Shares, then the Bank would become the sole beneficiary of the Trust. Scotiabank Tier 1 Trust which is a special purpose entity is not consolidated by the Bank as the Bank is not the primary beneficiary. These securities are reported on the consolidated balance sheet as deposit notes issued by the Bank to Scotiabank Tier 1 Trust.

(f) The Scotia BaTS and Scotia BaTS III may be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares of the Bank in the following circumstances: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; or (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction.

(g) No cash distributions will be payable on the Scotia BaTS and Scotia BaTS III in the event that the regular dividend is not declared on the Bank's preferred shares and, if no preferred shares are outstanding, the Bank's common shares. In such a circumstance the net distributable funds of the Trust will be payable to the Bank as the holder of the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions on the Scotia BaTS in full, the Bank will not declare dividends of any kind on any of its preferred or common shares for a specified period of time [refer to Notes 14 and 15 -Restrictions on dividend payments].

(h) On October 31, 2007, the Bank issued 1,000,000 Scotiabank Trust Subordinated Notes ("Scotia TSNs — Series A"), through a special purpose entity, Scotiabank Subordinated Notes Trust, a closed-end trust established under the laws of the Province of Ontario. The proceeds were used to purchase a deposit note from the Bank which is reported as a Business and government deposit in the Consolidated Balance Sheet.

Holders of the Scotia TSNs — Series A are entitled to receive interest at the rate of 5.25% per annum payable semi-annually until October 31, 2012. Commencing November 1, 2012 until November 1, 2017, interest will be payable on the Scotia TSNs — Series A at the 90-day Banker's Acceptance Rate plus 1% per annum payable quarterly with the first such payment on February 1, 2013. These securities may be redeemed in whole by the payment of cash with regulatory approval.

The Bank has guaranteed the payments of principal, interest, redemption price, if any, and any other amounts on the Scotia TSNs — Series A when they become due and payable. This guarantee will be a direct, unsecured obligation, and will be subordinate to the Bank's deposit liabilities and all other liabilities, except for other guarantees, obligations or liabilities that are either designated as ranking equally with or subordinated to the subordinated indebtedness. In addition, the Scotia TSNs — Series A will be automatically exchanged, without the consent of the holders, into an equal principal amount of 5.25% Bank Subordinated Notes upon occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction; or (v) the Bank determines that as a result of the enactment or anticipated enactment of federal Canadian income tax legislation, the interest payable on the Scotia TSNs — Series A will not be deductible by Scotiabank Subordinated Notes Trust for tax purposes.

14 Preferred shares

Authorized:

An unlimited number of preferred shares without nominal or par value.

Issued and fully paid:

	2010		2009		2008	
As at October 31 ($ millions)	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Preferred shares(a):						
Series 12(b)	**12,000,000**	**$ 300**	12,000,000	$ 300	12,000,000	$ 300
Series 13(c)	**12,000,000**	**300**	12,000,000	300	12,000,000	300
Series 14(d)	**13,800,000**	**345**	13,800,000	345	13,800,000	345
Series 15(e)	**13,800,000**	**345**	13,800,000	345	13,800,000	345
Series 16(f)	**13,800,000**	**345**	13,800,000	345	13,800,000	345
Series 17(g)	**9,200,000**	**230**	9,200,000	230	9,200,000	230
Series 18(h)	**13,800,000**	**345**	13,800,000	345	13,800,000	345
Series 20(i)	**14,000,000**	**350**	14,000,000	350	14,000,000	350
Series 22(j)	**12,000,000**	**300**	12,000,000	300	12,000,000	300
Series 24(k)	**10,000,000**	**250**	10,000,000	250	—	—
Series 26(l)	**13,000,000**	**325**	13,000,000	325	—	—
Series 28(m)	**11,000,000**	**275**	11,000,000	275	—	—
Series 30(n)	**10,600,000**	**265**	—	—	—	—
Total preferred shares	**159,000,000**	**$ 3,975**	148,400,000	$ 3,710	114,400,000	$ 2,860

Terms of preferred shares

	Dividends per share[a]	Issue date	Issue price	Initial dividend	Initial dividend payment date	Dividend reset rate[a]	Redemption date	Redemption price
Preferred shares								
Series 12[b]	$ 0.328125	July 14, 1998	$25.00	$ 0.381164	October 28, 1998	—	October 29, 2013	$ 25.00
Series 13[c]	0.300000	March 15, 2005	25.00	0.4405	July 27, 2005	—	April 28, 2010 to April 26, 2011	26.00
Series 14[d]	0.281250	January 24, 2007	25.00	0.28356	April 26, 2007	—	April 26, 2012	26.00
Series 15[e]	0.281250	April 5, 2007 April 17, 2007	25.00	0.34829	July 27, 2007	—	July 27, 2012	26.00
Series 16[f]	0.328125	October 12, 2007	25.00	0.39195	January 29, 2008	—	January 29, 2013	26.00
Series 17[g]	0.350000	January 31, 2008	25.00	0.33753	April 28, 2008	—	April 26, 2013	26.00
Series 18[h]	0.312500	March 25, 2008 March 27, 2008	25.00	0.43150	July 29, 2008	2.05%	April 26, 2013	25.00
Series 20[i]	0.312500	June 10, 2008	25.00	0.16780	July 29, 2008	1.70%	October 26, 2013	25.00
Series 22[j]	0.312500	September 9, 2008	25.00	0.48290	January 28, 2009	1.88%	January 26, 2014	25.00
Series 24[k]	0.390600	December 12, 2008	25.00	0.58650	April 28, 2009	3.84%	January 26, 2014	25.00
Series 26[l]	0.390625	January 21, 2009	25.00	0.41524	April 28, 2009	4.14%	April 26, 2014	25.00
Series 28[m]	0.390625	January 30, 2009	25.00	0.37671	April 28, 2009	4.46%	April 26, 2014	25.00
Series 30[n]	0.240625	April 12, 2010	25.00	0.28220	July 28, 2010	1.00%	April 26, 2015	25.00

(a) Non-cumulative preferential cash dividends on Series 12, 13, 14, 15, 16, 17, 18, 20, 22, 24, 26, 28 and 30 are payable quarterly, as and when declared by the Board. Dividends on the Non-cumulative 5-Year Rate Reset Preferred Shares (Series 18, 20, 22, 24, 26, 28 and 30) are payable at the applicable rate for the initial five-year fixed rate period ending one day prior to the redemption date. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividend on all Rate Reset Preferred Shares will be determined by the sum of the 5-year Government of Canada Yield plus the indicated dividend reset rate, multiplied by $25.00. If outstanding, non-cumulative preferential cash dividends on the Series 19, 21, 23, 25, 27, 29 and 31 are payable quarterly, as and when declared by the Board. Dividends on the Non-cumulative 5-year Rate Reset Preferred Shares (Series 19, 21, 23, 25, 27, 29 and 31) are payable, in an amount per share equal to the sum of the T-Bill Rate plus the dividend reset rate of the converted preferred shares, multiplied by $25.00. Holders of Fixed Rate Reset Preferred Shares will have the option to convert shares into an equal number of the relevant series of Floating Rate Preferred Shares on the applicable Rate Reset Series conversion date and every five years thereafter. If the Bank determines that, after giving effect to any Election Notices received, there would be less than 1,000,000 Series 18, 20, 22, 24, 26, 28 or 30 preferred shares issued and outstanding on the applicable conversion date, all of the issued and outstanding Series 18, 20, 22, 24, 26, 28 or 30 preferred shares will be automatically converted on the applicable conversion date into an equal number of Series 19, 21, 23, 25, 27, 29 or 31 preferred shares.

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

(c) With regulatory approval, the Series 13 Non-cumulative Preferred Shares may be redeemed by the Bank during the period commencing April 28, 2010 and ending April 26, 2011 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.

(d) With regulatory approval, the Series 14 Non-cumulative Preferred 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.

(e) With regulatory approval, the Series 15 Non-cumulative Preferred 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.

(f) With regulatory approval, the Series 16 Non-cumulative Preferred Shares may be redeemed by the Bank on or after January 29, 2013, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until January 27, 2017, following which no redemption premium is payable.

(g) With regulatory approval, the Series 17 Non-cumulative Preferred Shares may be redeemed by the Bank on or after April 26, 2013, at $26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 26, 2017, following which no redemption premium is payable.

(h) Holders of Series 18 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 19 non-cumulative floating rate preferred shares on April 26, 2013, and on April 26 every five years thereafter. With regulatory approval, Series 18 preferred shares may be redeemed by the Bank on April 26, 2013, and for Series 19 preferred shares, if applicable, on April 26, 2018 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(i) Holders of Series 20 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 21 non-cumulative floating rate preferred shares on October 26, 2013, and on October 26 every five years thereafter. With regulatory approval, Series 20 preferred shares may be redeemed by the Bank on October 26, 2013, and for Series 21 preferred shares, if applicable, on October 26, 2018 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(j) Holders of Series 22 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 23 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. With regulatory approval, Series 22 preferred shares may be redeemed by the Bank on January 26, 2014, and for Series 23 preferred shares, if applicable, on January 26, 2019 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(k) Holders of Series 24 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series

25 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. With regulatory approval, Series 24 preferred shares may be redeemed by the Bank on January 26, 2014, and, if applicable, Series 25 preferred shares on January 26, 2019 and every five years thereafter, respectively, for $25.00 per share, together with declared and unpaid dividends.

(l) Holders of Series 26 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 27 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. With regulatory approval, Series 26 preferred shares may be redeemed by the Bank on April 26, 2014, and for Series 27 preferred shares, if applicable, on April 26, 2019, and every five years thereafter, respectively, at $25.00 per share, together with declared but unpaid dividends.

(m) Holders of Series 28 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 29 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. With regulatory approval, Series 28 preferred shares may be redeemed by the Bank on April 26, 2014 and for Series 29 preferred shares, if applicable, on April 26, 2019 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

(n) Holders of Series 30 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 31 non-cumulative floating rate preferred shares on April 26, 2015, and on April 26 every five years thereafter. With regulatory approval, Series 30 preferred shares may be redeemed by the Bank on April 26, 2015, and for Series 31 preferred shares, if applicable, on April 26, 2020 and every five years thereafter, respectively, at $25.00 per share, together with declared and unpaid dividends.

Restrictions on dividend payments

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

In the event that applicable cash distributions on any of the Scotiabank Trust Securities [refer to Note 13 Capital instrument liabilities] are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities. Currently, these limitations do not restrict the payment of dividends on preferred or common shares.

For each of the years presented, the Bank paid all of the non-cumulative preferred share dividends.

15 Common shares

Authorized:

An unlimited number of common shares without nominal or par value.

Issued and fully paid:

	2010		2009		2008	
As at October 31 ($ millions)	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Common shares:						
Outstanding at beginning of year	**1,024,939,384**	**$ 4,946**	991,923,631	$ 3,829	983,767,155	$ 3,566
Issued under Shareholder Dividend and Share Purchase Plan(a)	**12,577,506**	**623**	14,304,029	516	2,576,133	108
Issued under Stock Option Plans (Note 18)	**5,396,024**	**181**	3,650,978	78	6,404,516	155
Issued for acquisition of a subsidiary or associated corporation	**—**	**—**	15,060,746	523	50,827	3
Purchased for cancellation	**—**	**—**	—	—	(875,000)	(3)
Outstanding at end of year	**1,042,912,914(b)**	**$ 5,750**	1,024,939,384(b)	$ 4,946	991,923,631(b)	$3,829

(a) On October 26, 2010, the Board approved an additional 15,000,000 common shares to be reserved for future issue under the terms of the Shareholder Dividend and Share Purchase Plan. As at October 31, 2010, there were 19,419,324 common shares held in reserve under the Shareholder Dividend and Share Purchase Plan.

(b) In the normal course of business, the Bank's regulated Dealer subsidiary purchases and sells the Bank's common shares to facilitate trading/institutional client activity. During fiscal 2010, the number of such shares bought and sold was 13,319,524 (2009; 13,134,586; 2008; 16,306,986).

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.

16 Capital management

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This capital management process aims to achieve four major objectives: exceed regulatory thresholds and meet longer-term internal capital targets, maintain strong credit ratings, manage capital levels commensurate with the risk profile of the Bank and provide the Bank's shareholders with acceptable returns.

Capital is managed in accordance with the Board-approved Capital Management Policy. Senior executive management develop the capital strategy and oversee the capital management processes of the Bank. The Bank's Finance, Group Treasury and Global Risk Management (GRM) groups are key in implementing the Bank's capital strategy and managing capital. Capital is managed using both regulatory capital measures and internal metrics.

Although the Bank is subject to several capital regulations in the different business lines and countries in which the Bank operates, capital adequacy is managed on a consolidated Bank basis. The Bank also takes measures to ensure its subsidiaries meet or exceed local regulatory capital requirements. The primary regulator of its consolidated capital adequacy is the Office of the Superintendent of Financial Institutions Canada (the Superintendent). 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 the Superintendent has approved its use, they may proceed to apply the AIRB approach in computing capital requirements.

The Bank computes credit risk capital using the AIRB approach for material Canadian, U.S. and European portfolios and the standardized approach for the remaining 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)	2010	2009
Shareholders' equity per Consolidated Balance Sheet	**$ 27,631**	$ 24,772
Components of accumulated other comprehensive income excluded from Tier 1 capital	**(457)**	(117)
Capital Instrument liabilities – trust securities	**3,400**	3,400
Non-controlling Interest in subsidiaries	**579**	554
Goodwill deduction	**(3,050)**	(2,908)
Other capital deductions (1)	**(2,769)**	(2,051)
Tier 1 capital	**$ 25,334**	$ 23,650
Qualifying subordinated debentures, net of amortization	**5,790**	5,833
Trust subordinated notes	**1,000**	1,000
Other net capital items (2)	**(2,525)**	(1,895)
Tier 2 capital	**4,265**	4,938
Total regulatory capital	**$ 29,599**	$ 28,588
Total risk weighted assets	**$215,034**	$221,656
Capital ratios		
Tier 1 capital ratio	**11.8%**	10.7%
Total capital ratio	**13.8%**	12.9%
Assets-to-capital multiple	**17.0**x	16.6x

(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, 2010. OSFI has also prescribed an asset-to-capital leverage multiple; the Bank was in compliance with this threshold as at October 31, 2010.

17 Accumulated other comprehensive income (loss)

The components of accumulated other comprehensive income (loss) as at October 31, 2010 and 2009, and other comprehensive income (loss) for the years then ended are as follows:

Accumulated other comprehensive income (loss)

	2010			2009			
As at and for the year ended October 31 ($ millions)	Opening balance	Net change	Ending balance	Opening balance	Transition amount[1]	Net change	Ending balance
Unrealized foreign currency translation gains (losses), net of hedging activities	**$ (3,917)**	**$ (591)**	**$ (4,508)[2]**	$ (2,181)	$ —	$ (1,736)	$ (3,917)[2]
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	**540**	**278**	**818[3]**	(949)	595	894	540[3]
Gains (losses) on derivative instruments designated as cash flow hedges	**(423)**	**62**	**(361)[4]**	(466)	—	43	(423)[4]
Accumulated other comprehensive income (loss)	**$ (3,800)**	**$ (251)**	**$ (4,051)**	$ (3,596)	$ 595	$ (799)	$ (3,800)

(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 $761 (2009 – expense of $646). As at October 31, 2010, non-derivative instruments designated as net investment hedges amounted to $5,869 (2009 – $7,384).

(3) Net of cumulative income tax expense of $371 (2009 – expense of $288).

(4) Net of cumulative income tax benefit of $128 (2009 – benefit of $174). 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 $172 (2009 – net after tax loss of $211). As at October 31, 2010, the maximum length of cash flow hedges outstanding was less than 9 years (2009 – 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)	2010	2009	2008
Net change in unrealized foreign currency translation losses			
Net unrealized foreign currency translation gains (losses) (1)	**$ (869)**	$ (2,410)	$ 4,206
Net gains (losses) on hedges of net investments in self-sustaining foreign operations (2)	**278**	674	(1,838)
	(591)	(1,736)	2,368
Net change in unrealized gains (losses) on available-for-sale securities			
Net unrealized gains (losses) on available-for-sale securities (3)	**603**	872	(1,447)
Reclassification of net (gains) losses to net income (4)	**(325)**	22	(141)
	278	894	(1,588)
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)	**(258)**	(112)	179
Reclassification of net (gains) losses to net income (6)	**320**	155	(698)
	62	43	(519)
Other comprehensive income (loss)	**$ (251)**	$ (799)	$ 261

(1) Net of income tax expense of nil.

(2) Net of income tax expense of $115 (2009 – expense of $328; 2008 – benefit of $109).

(3) Net of income tax expense of $211 (2009 – expense of $277; 2008 – benefit of $657).

(4) Net of income tax expense of $128 (2009 – benefit of $59; 2008 – expense of $52).

(5) Net of income tax benefit of $95 (2009 – benefit of $23; 2008 – expense of $79).

(6) Net of income tax benefit of $141 (2009 – benefit of $67; 2008 – expense of $322).

18 Stock-based compensation

(a) Stock option plans

Under the terms of the Employee Stock Option Plan, options to purchase common shares may be granted to selected employees at an exercise price not less than the closing price of the Bank's common shares on the Toronto Stock Exchange (TSX) on the day prior to the date of the grant. As well, for grants made beginning December 2005, the exercise price must not be less than the volume weighted average price on the TSX for the five trading days immediately preceding the grant date.

Employee stock options granted between November 1, 2002, and October 31, 2009, have Tandem Stock Appreciation Rights (Tandem SARs), which provide the employee 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.

Stock options granted after November 1, 2009 do not include Tandem SAR features as described above and are expensed using the fair value method of accounting.

Options vest evenly over a four-year period and are exercisable no later than 10 years after the date of the grant. In the event that the expiry date falls within an insider trading blackout period, the expiry date will be extended for 10 business days after the end of the blackout period.

Outstanding options expire on dates ranging from January 19, 2011 to December 11, 2019. As approved by the shareholders, a total of 114 million common shares have been reserved for issuance under this plan of which 81.6 million common shares have been issued as a result of the exercise of options and 21.0 million common shares are committed under outstanding options, leaving 11.4 million common shares available for issuance as options.

In 2001, a Directors' Stock Option Plan was approved by the shareholders. A total of 800,000 common shares have been reserved for issuance to non-officer directors under this plan.

As of November 1, 2002, director stock options are expensed using a fair-value-based method. Currently, 91,000 (2009 – 140,000; 2008 – 144,000) options are outstanding at a weighted average exercise price of $23.79 (2009 – $23.00; 2008 – $23.04). In fiscal 2010, 49,000 of these options (2009 – 4,000; 2008 – 20,000) were exercised at a weighted average exercise price of $21.54 (2009 – $24.40; 2008 – $23.48). These options expire between March 9, 2011 and December 6, 2012. Commencing in fiscal 2004, the Bank ceased granting stock options to these directors.

During fiscal 2010, 3,953,456 options were granted and as at October 31, 2010, 3,904,972 options were outstanding of which 2,907,883 options were vested. These grants resulted in a compensation expense of $24.6 million for the year ended October 31, 2010 in salaries and employee benefits expense in the Consolidated Statement of Income with a corresponding credit to contributed surplus in the Consolidated Balance Sheet. The compensation expenses related to unrecognized compensation cost for non-vested options was $8.0 million at October 31, 2010, to be recognized over the weighted average period of 1.84 years.

For options granted after November 1, 2009 that do not have the Tandem SAR features, the weighted average fair value of options granted in December 2009 was estimated at $8.47 using the Black-Scholes option pricing model on the date of grant using the following assumptions:

As at	December 2009
Risk-free interest rate	2.95%
Expected dividend yield	4.33%
Expected price volatility	27.12%
Expected life of option	6.03 years

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

	2010		2009		2008	
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	**22,889**	**$ 33.90**	22,979	$ 31.32	27,721	$ 26.81
Granted	**3,954**	**47.75**	4,427	33.89	2,217	52.56
Exercised as Options	**(5,347)**	**23.94**	(3,647)	18.56	(6,384)	19.12
Forfeited/cancelled	**(229)**	**33.17**	(524)	32.16	(231)	37.24
Exercised as Tandem SARs	**(279)**	**27.28**	(346)	26.80	(344)	27.45
Outstanding at end of year (1)	**20,988**	**$ 39.14**	22,889	$ 33.90	22,979	$ 31.32
Exercisable at end of year	**12,290**	**$ 36.10**	15,404	$ 30.40	17,855	$ 25.98
Available for grant	**11,363**		14,808		18,366	

As at October 31, 2010	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
$21.03 to $26.50	4,442	1.33	$ 24.00	4,442	$ 24.00
$27.44 to $39.00	6,785	6.34	$ 34.40	3,548	$ 34.87
$45.93 to $47.75	5,719	7.83	$ 47.21	1,814	$ 46.04
$52.00 to $54.00	4,042	6.65	$ 52.31	2,486	$ 52.25
	20,988	5.75	$ 39.14	12,290	$ 36.10

(1) Included are 16,382,636 (2009 – 19,086,780; 2008 – 16,293,077) options with Tandem SAR features and 4,605,215 of options (without the Tandem SAR feature).

(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 2010, the Bank's contributions totalled $29 million (2009 – $30 million; 2008 – $28 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 2010, an aggregate expense of $205 million (2009 – $79 million expense; 2008 – $89 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 derivatives used to manage the volatility of stock-based compensation of $274 million (2009 – gains of $154 million; 2008 – losses of $328 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 2010, 425,180 SARs were granted (2009 – 4,938,692; 2008 – 2,445,768) and as at October 31, 2010, 19,636,734 SARs were outstanding (2009 –23,467,755; 2008 – 21,122,574), of which 18,811,216 SARs were vested (2009 – 21,537,430; 2008 – 19,804,585).

Deferred Stock Unit Plan (DSU)

Under the DSU Plan, eligible senior executives may elect to receive all or a portion of their cash bonus under the Annual Incentive Plan (which is expensed for the year awarded in salaries and employee benefits in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only when an executive ceases to be a Bank employee and must be redeemed by December 31 of the year following that event. As at October 31, 2010, there were 1,655,197 units outstanding (2009 – 1,591,426; 2008 – 1,595,619).

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, 2010, there were 350,029 units outstanding (2009 – 324,066; 2008 – 258,115).

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, 2010, there were 2,073,623 units (2009 –1,983,701; 2008 – 1,794,695) awarded and outstanding of which 1,577,558 were vested.

Performance Share Unit Plan (PSU)

Eligible executives receive an award of performance share units that vest at the end of three years. PSU awards granted after November 1, 2009 are subject to performance criteria measured over a three-year period. For prior PSU awards, only a portion of the award was subject to performance criteria. The three-year performance measures include return on equity compared to target and total shareholder return relative to a comparator group selected prior to the granting of the award. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. This expense varies based on performance compared to the performance measures. Upon vesting, the units are paid, in cash, to the employee. As at October 31, 2010, there were 6,001,672 units (2009 – 4,062,895; 2008 – 3,348,796) awarded and outstanding [including 4,988,748 (2009 – 2,345,134; 2008 – 1,305,913) subject to performance criteria] of which 4,452,316 were vested. The above units include PSUs awarded to Scotia Capital employees described below.

Scotia Capital Deferred Payment Plan

Under the Scotia Capital Incentive Plan, a portion of the bonus awarded to certain employees (which is accrued and expensed in the year to which it relates) is allocated in the form of DPP units, with the remainder paid out in cash. These units are subsequently paid, in cash, to qualifying employees over each of the following three years. Other eligible employees may be allocated PSUs or stock options/SARs (which are expensed as described above) instead of DPP units.

DPP units awarded in fiscal 2010 are subject to performance criteria measured over the units' vesting period. The performance measures include the same measures as described above for the PSU awards as well as an assessment of the annual performance of the Bank and Scotia Capital.

Changes in the value of the units, which arise from fluctuations in the market price of the Bank's common shares as well as based on performance compared to the performance measures, are expensed in the same manner as the Bank's other stock-based compensation plans in salaries and employee benefits expense in the Consolidated Statement of Income.

19 Corporate income taxes

Corporate income taxes recorded in the Bank's consolidated financial statements for the years ended October 31 are as follows:

(a) Components of income tax provision

For the year ended October 31 ($ millions)	2010	2009	2008
Provision for income taxes in the Consolidated Statement of Income:			
Current income taxes:			
Domestic:			
Federal	**$ 118**	$ (155)	$ 160
Provincial	**223**	91	210
Foreign	**847**	1,035	688
	1,188	971	1,058
Future income taxes:			
Domestic:			
Federal	**313**	85	(311)
Provincial	**87**	37	(203)
Foreign	**157**	40	147
	557	162	(367)
Total provision for income taxes in the Consolidated Statement of Income	**$ 1,745**	$ 1,133	$ 691
Provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity:			
Reported in Other Comprehensive Income	**244**	708	(1,062)
Cumulative effect of adopting new accounting policy	**—**	323	—
Share issuance costs	**(2)**	(6)	(10)
Total provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity	**242**	1,025	(1,072)
Total provision for (recovery) of income taxes	**$ 1,987**	$ 2,158	$ (381)

(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:

	2010		2009		2008	
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	**$ 1,842**	**30.3%**	$ 1,516	31.6%	$ 1,289	32.6%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries and foreign branches	**(72)**	**(1.2)**	(325)	(6.8)	(370)	(9.4)
Tax-exempt income from securities	**(152)**	**(2.5)**	(168)	(3.5)	(278)	(7.0)
Future income tax effect of substantively enacted tax rate changes	**105**	**1.7**	120	2.5	61	1.5
Other, net	**22**	**0.4**	(10)	(0.2)	(11)	(0.2)
Total income taxes and effective tax rate	**$ 1,745**	**28.7%**	$ 1,133	23.6%	$ 691	17.5%

(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)	2010	2009
Loss carryforwards(1)	**$ 1,242**	$ 1,323
Allowance for credit losses(2)	**686**	973
Deferred compensation	**305**	266
Deferred income	**187**	218
Loss on disposal of subsidiary operations	**70**	77
Premises and equipment	**(141)**	(115)
Pension fund	**(304)**	(313)
Securities	**(339)**	(493)
Other	**69**	304
Net future income taxes(3)	**$ 1,775**	$ 2,240

(1) Includes a gross future tax asset of $347 as at October 31, 2010 (2009 – $376) relating to subsidiaries' unused income tax losses. This future tax asset has been reduced by a valuation allowance of $1 (2009 – $3), resulting in a net future tax asset of $346 (2009 – $373).

(2) As at October 31, 2010, the future income tax asset related to the allowance for credit losses has been reduced by a valuation allowance of $316 (2009 – $313) relating to a subsidiary's unused tax deductions arising from previous years' allowance for credit losses.

(3) Net future income taxes of $1,775 (2009 – $2,240) are represented by future income tax assets of $2,219 (2009 – $2,577), net of future income tax liabilities of $444 (2009 – $337).

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, 2010, are estimated to be $907 million (October 31, 2009 – $820 million).

20 Employee future benefits

The Bank sponsors a number of employee future benefit plans, including pensions and other post-retirement benefits, post-employment benefits and compensated absences for most of its employees globally. The following tables present financial information related to the Bank's principal plans. The principal plans include pension and other benefit plans in Canada, the U.S., Mexico, Jamaica and the U.K.(1)

	Pension plans			Other benefit plans		
For the year ended October 31 ($ millions)	**2010**	2009	2008	**2010**	2009	2008
Change in benefit obligation						
Benefit obligation at beginning of year	**$ 4,367**	$ 4,414	$ 4,618	**$ 1,038**	$ 1,040	$ 1,047
Cost of benefits earned in the year	**118**	124	133	**41**	39	40
Interest cost on benefit obligation	**306**	298	274	**72**	71	66
Employee contributions	**13**	13	11	**—**	—	—
Benefits paid	**(274)**	(278)	(271)	**(55)**	(53)	(50)
Actuarial loss (gain)	**731**	(47)	(441)	**152**	(21)	(92)
Non-routine events(2)	**19**	(61)	24	**(19)**	—	(4)
Foreign exchange	**(25)**	(96)	66	**(4)**	(38)	33
Benefit obligation at end of year (4)	**$ 5,255**	$ 4,367	$ 4,414	**$ 1,225**	$ 1,038	$ 1,040
Change in fair value of assets						
Fair value of assets at beginning of year	**$ 4,830**	$ 5,537	$ 5,733	**$ 245**	$ 256	$ 237
Actual return on assets	**363**	(348)	(105)	**28**	4	3
Employer contributions	**172**	141	62	**58**	60	56
Employee contributions	**13**	13	11	**—**	—	—
Benefits paid	**(274)**	(278)	(271)	**(55)**	(53)	(50)
Non-routine events(2)	**—**	(90)	—	**—**	—	—
Foreign exchange	**(26)**	(145)	107	**1**	(22)	10
Fair value of assets at end of year (3)(4)	**$ 5,078**	$ 4,830	$ 5,537	**$ 277**	$ 245	$ 256
Funded status						
Excess (deficit) of fair value of assets over benefit obligation at end of year(4)	**$ (177)**	$ 463	$ 1,123	**$ (948)**	$ (793)	$ (784)
Unrecognized net actuarial loss	**1,758**	1,003	318	**296**	168	186
Unrecognized past service costs	**104**	96	112	**(3)**	(4)	(6)
Unrecognized transitional obligation (asset)	**(178)**	(216)	(276)	**122**	141	161
Valuation allowance	**(139)**	(129)	(179)	**—**	—	—
Employer contributions after measurement date	**9**	20	7	**11**	11	11
Net prepaid (accrued) benefit expense at end of year	**$ 1,377**	$ 1,237	$ 1,105	**$ (522)**	$ (477)	$ (432)
Recorded in:						
Other assets in the Bank's Consolidated Balance Sheet	**$ 1,612**	$ 1,463	$ 1,320	**$ 31**	$ 23	$ 17
Other liabilities in the Bank's Consolidated Balance Sheet	**(235)**	(226)	(215)	**(553)**	(500)	(449)
Net prepaid (accrued) benefit expense at end of year	**$ 1,377**	$ 1,237	$ 1,105	**$ (522)**	$ (477)	$ (432)
Annual benefit expense						
Cost of benefits earned in the year	**$ 118**	$ 124	$ 133	**$ 41**	$ 39	$ 40
Interest cost on benefit obligation	**306**	298	274	**72**	71	66
Actual return on assets	**(363)**	348	105	**(28)**	(4)	(3)
Actuarial loss (gain) on benefit obligation	**731**	(47)	(441)	**152**	(21)	(92)
Amount of curtailment (gain) loss recognized	**—**	—	(1)	**(8)**	—	—
Amount of settlement (gain) loss recognized	**—**	12	—	**—**	—	—
Special termination benefits(2)	**—**	31	—	**—**	—	—
Non-routine events(2)	**19**	—	24	**(19)**	—	(4)
Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs	**811**	766	94	**210**	85	7
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	**(36)**	(753)	(501)	**7**	(17)	(15)

Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation	**(726)**	49	444	**(146)**	28	104
Difference between amortization of non-routine events and actual non-routine events	**(8)**	10	(13)	**19**	—	4
Amortization to recognize transitional obligation (asset)	**(37)**	(39)	(39)	**18**	18	18
	(807)	(733)	(109)	**(102)**	29	111
Change in valuation allowance provided against prepaid benefit expense	**10**	(50)	10	**—**	—	—
Benefit expense (income) recognized, excluding defined contribution benefit expense	**14**	(17)	(5)	**108**	114	118
Defined contribution benefit expense recognized	**6**	5	6	**—**	—	—
Total benefit expense recognized	**$ 20**	$ (12)	$ 1	**$ 108**	$ 114	$ 118

(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 $429 (2009 – $426; 2008 – $511).

(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)	**2010**	2009	2008	**2010**	2009	2008
Benefit obligation(1)	**$ 4,841**	$ 774	$ 659	**$ 1,225**	$ 890	$ 1,040
Fair value of assets	**4,349**	446	354	**277**	96	256
Deficit of fair value of assets over benefit obligation	**$ (492)**	$ (328)	$ (305)	**$ (948)**	$ (794)	$ (784)

(1) Includes the benefit obligation of $280 at the end of 2010 (2009 – $258; 2008 – $264) 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	**2010**	2009	2008	**2010**	2009	2008
To determine benefit obligation at end of year						
Discount rate	**5.90%**	7.05%	6.70%	**6.00%**	6.90%	6.90%
Rate of increase in future compensation(2)	**3.60%**	3.90%	3.90%	**1.30%**	1.30%	1.50%
To determine benefit expense (income) for the year						
Discount rate	**7.05%**	6.70%	5.85%	**6.90%**	6.90%	6.10%
Assumed long-term rate of return on assets	**7.50%**	7.25%	7.25%	**8.50%**	8.70%	7.40%
Rate of increase in future compensation(2)	**3.90%**	3.90%	3.75%	**1.30%**	1.50%	1.40%
Health care cost trend rates at end of year						
Initial rate	**n/a**	n/a	n/a	**6.70%**	7.00%	7.20%
Ultimate rate	**n/a**	n/a	n/a	**4.50%**	4.70%	5.00%
Year ultimate rate reached	**n/a**	n/a	n/a	**2029**	2029	2018

(1) Includes international plans which generally have higher rates than Canadian plans. The discount rate used to determine the 2010 benefit expense for all Canadian pension and other benefit plans was 6.8% (2009 – 6.4%; 2008 – 5.6%). The discount rate used for the 2010 end of year benefit obligation was 5.7% for all Canadian pension plans and 5.8% for all Canadian other benefit plans, respectively (2009 – 6.8%; 2008 – 6.4%) and the assumed long-term rate of return on assets for all Canadian pension plans was 7.0% (2009 –7.0%; 2008 – 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, 2010 ($ millions)	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Impact of 1% decrease in discount rate	$ 845	$ 62	$ 176	$ 13
Impact of 1% decrease in assumed long-term rate of return on assets	n/a	50	n/a	2
Impact of 0.25% increase in rate of increase in future compensation	65	7	1	—
Impact of 1% increase in health care cost trend rate	n/a	n/a	162	20
Impact of 1% decrease in health care cost trend rate	n/a	n/a	(130)	(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 relative to the benefit obligation. A key factor in managing long-term investment risk is asset mix. Investing the pension assets in different asset classes and geographic regions helps to mitigate risk and to minimize the impact of declines in any single asset class, particular region or type of investment. Within each asset class, investment management firms – including related-party managers – are hired and assigned specific mandates.

Pension plan asset mix guidelines are set for the long term, and are documented in each plan's investment policy. Asset mix policy typically also reflects the nature of the plan's benefit obligation. Legislation places certain restrictions on asset mix – for example, there are usually limits on concentration in any one investment. Other concentration and quality limits are also set forth in the investment policies. The use of derivatives is generally prohibited without specific authorization; currently, the main use of derivatives is to hedge currency fluctuations associated with US equity holdings in the Canadian pension funds. Asset mix guidelines are reviewed at least once each year, and adjusted, where appropriate, based on market conditions and opportunities. However, large asset class shifts are rare, and typically reflect a change in the pension plan's

situation (e.g. a plan termination). Actual asset mix is reviewed regularly, and rebalancing – as needed – back to the target asset mix is considered, generally, twice each year.

The Bank's other benefit plans are generally not funded; the relatively small assets for these other benefit plans are mostly related to programs in Mexico.

The Bank's principal plans' weighted-average actual and target asset allocations at the measurement date, by asset category, are as follows:

	Pension plans				Other benefit plans			
Asset category %	**Target 2010**	**Actual 2010**	Actual 2009	Actual 2008	**Target 2010**	**Actual 2010**	Actual 2009	Actual 2008
Equity investments	**64%**	**64%**	63%	64%	**40%**	**40%**	36%	35%
Fixed income investments	**35%**	**36%**	34%	35%	**60%**	**60%**	64%	65%
Other	**1%**	**—**	3%	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 72% of principal pension plans' benefit obligation and 72% 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 2010, the Bank made cash payments of $161 million (2009 –$154 million; 2008 – $33 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 $58 million (2009 – $60 million; 2008 – $57 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 $6 million (2009 – $5 million; 2008 – $6 million) to the principal defined contribution pension plans.

21 Earnings per common share

For the year ended October 31 ($ millions)	2010	2009	2008
Basic earnings per common share			
Net income	**$ 4,239**	$ 3,547	$ 3,140
Preferred dividends paid	**201**	186	107
Net income available to common shareholders	**$ 4,038**	$ 3,361	$ 3,033
Average number of common shares outstanding (millions)	**1,032**	1,013	987
Basic earnings per common share (1)	**$ 3.91**	$ 3.32	$ 3.07
Diluted earnings per common share			
Net income available to common shareholders	**$ 4,038**	$ 3,361	$ 3,033
Average number of common shares outstanding (millions)	**1,032**	1,013	987
Stock options potentially exercisable (millions) (2)	**2**	3	6
Average number of diluted common shares outstanding (millions) (3)	**1,034**	1,016	993
Diluted earnings per common share (1)	**$ 3.91**	$ 3.31	$ 3.05

(1) Earnings per share calculations are based on full dollar and share amounts.

(2) Reflects the potential dilutive effect of stock options granted under the Bank's Stock Option Plans as determined under the treasury stock method.

Excludes options with Tandem SAR features as these options are expensed and recorded as liabilities. All other stock options are included in the computation.

(3) Certain convertible instruments have not been included in the calculation since the Bank has the right to redeem them for cash prior to conversion date.

22 Related party transactions

The Bank provides regular banking services to its associated and other related corporations in the ordinary course of business. These services are on terms similar to those offered to non-related parties. Loans granted to directors and officers in Canada are at market terms and conditions. Prior to March 1, 2001, the Bank granted loans to officers and employees at reduced rates in Canada. The loans granted prior to March 1, 2001, are grandfathered until maturity. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers of those units at reduced rates or on preferred terms. Loans to executive officers of the Bank totalled $7.3 million as at October 31, 2010 (2009 – $6.8 million), and loans to directors $0.3 million (2009 –$0.1 million). Directors can use some or all of their fees to buy common shares at market rates through the Directors' Share Purchase Plan. Non-officer directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in 2004, the Bank no longer grants stock options to non-officer directors. Refer to Note 18, Stock-based compensation for further details of these plans. The Bank may also provide banking services to companies affiliated with the Bank's directors. These commercial arrangements are conducted at the same market terms and conditions provided to all customers and follow the normal credit review processes within the Bank. The Bank's committed credit exposure to companies controlled by directors totalled $4.6 million as at October 31, 2010 (2009 – $3.6 million), while actual utilized amounts were $2.8 million (2009 – $1.1 million).

23 Segmented results of operations

Scotiabank is a diversified financial services institution that provides a wide range of financial products and services to retail, commercial and corporate customers around the world. During fiscal 2010 the Bank was organized into three main operating segments: Canadian 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.

During the year, broker-sourced deposits of $10 billion were transferred from Group Treasury to Canadian Banking.

For the year ended October 31, 2010 ($ millions)

Taxable equivalent basis	Canadian Banking	International Banking	Scotia Capital	Other[1]	**Total**
Net interest income[2]	$ 5,191	$ 3,755	$ 1,093	$ (1,418)	**$ 8,621**
Provision for credit losses	706	616	(43)	(40)	**1,239**
Other income	2,626	1,696	2,086	476	**6,884**
Net interest and other income	7,111	4,835	3,222	(902)	**14,266**
Depreciation and amortization	165	131	35	3	**334**
Other non-interest expenses	3,761	2,800	1,160	127	**7,848**
Income before the undernoted:	3,185	1,904	2,027	(1,032)	**6,084**
Provision for income taxes	869	543	677	(344)	**1,745**
Non-controlling interest in net income of subsidiaries	1	99	—	—	**100**
Net income	$ 2,315	$ 1,262	$ 1,350	$ (688)[3]	**$ 4,239**
Preferred dividends paid					**201**
Net income available to common shareholders					**$ 4,038**
Total average assets ($ billions)	$ 204	$ 87	$ 164	$ 61	**$ 516**

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					$ 3,361
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					$ 3,033
Total average assets ($ billions)	$ 175	$ 79	$ 164	$ 37	$ 455

(1) Includes revenues from all other smaller operating segments of ($169) in 2010 (2009 – ($638); 2008 – ($224), and net income/(loss) of ($152) in 2010 (2009 – ($467); 2008 – ($200). 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 $286 in 2010 (2009 – $288; 2008 – $416), 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 $239 in 2010 and $331 in 2009, which were offset by a reduction in the net interest expense of the Other segment.

(3) As a result of a transfer of $10 billion of broker-sourced deposits to Canadian Banking from Group Treasury in the first quarter, the net loss for the year decreased by $125 million.

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, 2010 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 5,031	$ 458	$ 801	$ 3,145	**$ 9,435**
Provision for credit losses	709	(54)	168	456	**1,279**
Other income	3,770	609	438	1,745	**6,562**
Non-interest expenses	4,653	327	778	2,379	**8,137**
Provision for income taxes	738	330	76	558	**1,702**
Non-controlling interest in net income of subsidiaries	1	—	6	93	**100**
	$ 2,700	$ 464	$ 211	$ 1,404	**$ 4,779**
Preferred dividends paid					**192**
Corporate adjustments					**(549)**
Net income available to common shareholders					**$ 4,038**
Total average assets ($ billions)	$ 337	$ 47	$ 18	$ 105	**$ 507**
Corporate adjustments					**9**
Total average assets, including corporate adjustments					**$ 516**

For the year ended October 31, 2009 ($ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	$ 4,552	$ 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

(1) Revenues are attributed to countries based on where services are performed or assets are recorded.

24 Guarantees, commitments and contingent liabilities

(a) Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, index or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform in relation to its indebtedness. The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

As at October 31 ($ millions)	2010 Maximum potential amount of future payments[1]	2009 Maximum potential amount of future payments[1]
Standby letters of credit and letters of guarantee	**$ 20,450**	$ 21,904
Liquidity facilities	**8,377**	9,797
Derivative instruments	**3,071**	1,465
Securitizations	**—**	170
Indemnifications	**538**	552

(1) The maximum potential amount of future payments represents those guarantees that can be quantified and excludes other guarantees that cannot be quantified. As many of these guarantees will not be drawn upon and the maximum potential amount of future payments listed above does not consider the possibility of recovery under recourse or collateral provisions, the above amounts are not indicative of future cash requirements, credit risk, or the Bank's expected losses from these arrangements.

Standby letters of credit and letters of guarantee

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of these guarantees does not exceed four years. The types and amounts of collateral security held by the Bank for these guarantees is generally the same as for loans. As at October 31, 2010, $9 million (2009 – $5 million) was included in other liabilities in the Consolidated Balance Sheet with respect to these guarantees.

Liquidity facilities

The Bank provides backstop liquidity facilities to asset-backed commercial paper conduits, administered by the Bank and by third parties. These facilities provide an alternative source of financing, in the event market disruption prevents the conduit from issuing commercial paper or, in some cases, when certain specified conditions or performance measures are not met. Generally, these facilities have a term of up to one year. Of the $8,377 million (2009 – $9,797 million) in backstop liquidity facilities provided to asset-backed commercial paper conduits, 95% (2009 – 95%) is committed liquidity for the Bank's sponsored conduits.

The Bank provides partial credit enhancements in the form of financial standby letters of credit to commercial paper conduits, administered by the Bank. As at October 31, 2010, these credit enhancements amounted to $669 million (2009 – $760 million) and are considered as liquidity facilities in the above table. The credit enhancements are provided to ensure a high investment grade credit rating is achieved for notes issued by the conduits. Generally, these facilities have a term of up to one year. No amounts have been recorded in the Consolidated Balance Sheet with respect to these facilities.

Derivative instruments

The Bank enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a loan or bond, if a default or other defined triggering event occurs. The Bank also enters into written option contracts under which a counterparty is granted the right, but not the obligation, to sell a specified quantity of a financial instrument at a pre-determined price on or before a set date. These written option contracts are normally referenced to interest rates, foreign exchange rates or equity prices. Typically, a corporate or government entity is the counterparty to the written credit derivative and option contracts that meet the characteristics of guarantees described above. The maximum potential amount of future payments disclosed in the table above relates to written credit derivatives, puts and floors. However, these amounts exclude certain derivatives contracts, such as written caps, as the nature of these contracts prevents quantification of the maximum potential amount of future payments. As at October 31, 2010, $196 million (2009 – $103 million) was included in derivative instrument liabilities in the Consolidated Balance Sheet with respect to these derivative instruments.

Securitizations

The Bank's revolving securitization agreements required payments to be made to the trusts under certain limited circumstances. These guarantees are no longer outstanding as the securitization notes have matured in 2010. Last year, these payments were contingent on failure to maintain a minimum pool size due to the occurrence of certain limited predefined events.

Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, service agreements, trademark licensing agreements, escrow arrangements, sales of assets or businesses, outsourcing agreements, leasing arrangements, clearing system arrangements, securities lending agency agreements and structured transactions. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In certain types of arrangements, the Bank may in turn obtain indemnifications from other parties to the arrangement or may have access to collateral under recourse provisions. In many cases,

there are no predetermined 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, 2010, $4 million (2009 – $6 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

(b) Other indirect commitments

In the normal course of business, various other indirect commitments are outstanding which are not reflected on the Consolidated Balance Sheet. These may include:

- Commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed;
- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions;
- Securities lending transactions under which the Bank, acting as principal or agent, agrees to lend securities to a borrower. These transferred securities are not derecognized. The borrower must fully collateralize the security loan at all times. The market value of the collateral is monitored relative to the amounts due under the agreements, and where necessary, additional collateral is obtained; and
- Security purchase commitments which require the Bank to fund future investments.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

The table below provides a detailed breakdown of the Bank's other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract which are not reflected on the Consolidated Balance Sheet.

As at October 31 ($ millions)	2010(1)	2009(1)
Commercial letters of credit	**$ 1,090**	$ 1,182
Commitments to extend credit(2)(3)		
Original term to maturity of one year or less	**43,089**	48,196
Original term to maturity of more than one year	**60,493**	56,262
Securities lending	**12,463**	10,036
Security purchase and other commitments	**436**	1,499
Total	**$117,571**	$117,175

(1) Amounts relating to variable interest entities are disclosed in Note 6.

(2) Includes liquidity facilities, net of credit enhancements.

(3) Excludes commitments which are unconditionally cancellable at the Bank's discretion at any time.

(c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2010, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year ($ millions)	
2011	$ 206
2012	176
2013	143
2014	107
2015	82
2016 and thereafter	183
Total	$ 897

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $243 million (2009 – $243 million; 2008 – $217 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)	2010	2009
Assets pledged to:		
Bank of Canada(1)	**$ 25**	$ 100
Foreign governments and central banks(1)	**7,044**	10,295
Clearing systems, payment systems and depositories(1)	**2,026**	1,813
Assets pledged in relation to exchange-traded derivative transactions	**561**	443
Assets pledged as collateral related to securities borrowed, and securities lent	**33,015**	28,153
Assets pledged in relation to over-the-counter derivative transactions	**5,267**	4,686
Assets pledged in relation to covered bonds (refer to Note 6a)	**7,584**	—
Other	**103**	1,744
Total assets pledged	**$ 55,625**	$47,234
Obligations related to securities sold under repurchase agreements(2)	**40,286**	36,568
Total	**$ 95,911**	$83,802

(1) Includes assets pledged in order to participate in clearing and payment systems and depositories, or pledged or lodged to have access to the facilities of central banks in foreign jurisdictions.

(2) The securities sold under repurchase agreements are not derecognized.

(e) Litigation

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

25 Financial instruments – risk management

The Bank's principal business activities result in a balance sheet that consists primarily of financial instruments. In addition, the Bank uses derivative financial instruments for both trading and asset/liability management purposes. The principal financial risks that arise from transacting financial instruments include credit risk, liquidity risk and market risk. The Bank uses comprehensive risk management techniques to monitor, evaluate and manage these risks, as follows:

– extensive risk management policies define the Bank's risk appetite, set the limits and controls within which the Bank and its subsidiaries can operate, and reflect the requirements of regulatory authorities. These policies are approved by the Bank's Board of Directors, either directly or through the Executive and Risk Committee, (the Board);

– guidelines are developed to clarify risk limits and conditions under which the Bank's risk policies are implemented;

– processes are implemented to identify, evaluate, document, report and control risk. Standards define the breadth and quality of information required to make a decision; and

– compliance with risk policies, limits and guidelines is measured, monitored and reported to ensure consistency against defined goals.

(a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. The Bank's credit risk strategy and credit risk policy are developed by its Global Risk Management (GRM) department and are reviewed and approved by the Board on an annual basis. The credit risk strategy defines target markets and risk tolerances that are developed at an all-Bank level, and then further refined at the business line level. The objectives of the credit risk strategy are to ensure that, for the Bank, including the individual business lines:

– target markets and product offerings are well defined;

– the risk parameters for new underwritings and for the portfolios as a whole are clearly specified; and

– transactions, including origination, syndication, loan sales and hedging, are managed in a manner that is consistent with the Bank's risk appetite.

The credit risk policy sets out, among other things, the credit risk rating systems and associated parameter estimates, the delegation of authority for granting credit, the calculation of the allowance for credit losses and the authorization of writeoffs. It forms an integral part of enterprise-wide policies and procedures that encompass governance, risk management and control structure.

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.

Further details on the fair value of financial instruments and how these amounts were determined are provided in Note 26. Note 28 provides details on the terms and conditions of the Bank's derivative financial instruments including notional amounts, remaining term to maturity, credit risk, and fair values of derivatives used in trading activities and asset/liability management including hedging.

The Bank's credit risk rating systems are designed to support the determination of key credit risk parameter estimates which measure credit and transaction risk. For non-retail exposures, parameters are associated with each credit facility through the assignment of borrower and transaction ratings. Borrower risk is evaluated using methodologies that are specific to particular industry sectors and/or business lines. The risk associated with facilities of a given borrower is assessed by considering the facilities' structural and collateral-related elements. For retail portfolios, each exposure has been assigned to a particular pool (real estate secured, other retail – term lending, unsecured revolving) and within each pool to a risk grade. This process provides for a meaningful differentiation of risk, and allows for appropriate and consistent estimation of loss characteristics at the pool and risk grade level. Further details on credit risk relating to derivatives are provided in Note 28(c).

(i) Credit risk exposures

Credit risk exposures disclosed below are presented based on Basel II approaches utilized by the Bank. 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 counterparty 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.

	2010				2009
	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	$ 45,247	$ 35,980	$ 30,295	**$111,522**	$121,954
Bank	12,426	11,108	19,974	**43,508**	47,999
Sovereign(4)	71,551	8,128	3,049	**82,728**	86,670
	129,224	55,216	53,318	**237,758**	256,623
Standardized portfolio					
Corporate	45,394	3,277	2,531	**51,202**	50,754
Bank	13,441	636	487	**14,564**	9,874
Sovereign	12,955	68	6	**13,029**	12,311
	71,790	3,981	3,024	**78,795**	72,939
Total non-retail	$201,014	$ 59,197	$ 56,342	**$316,553**	$329,562
Retail					
AIRB portfolio					
Real estate secured	$ 98,131	$ 613	$ —	**$ 98,744**	$ 90,152
Qualifying revolving	13,835	5,948	—	**19,783**	18,736
Other retail	12,213	211	—	**12,424**	11,551
	124,179	6,772	—	**130,951**	120,439
Standardized portfolio					
Real estate secured	16,666	—	—	**16,666**	13,183
Other retail	12,567	—	—	**12,567**	11,916
	29,233	—	—	**29,233**	25,099
Total retail	$153,412	$ 6,772	$ —	**$160,184**	$145,538
Total	$354,426	$ 65,969	$ 56,342	**$476,737**	$475,100
By geography(5)					
Canada	$220,365	$ 38,201	$ 22,418	**$280,984**	$279,868
United States	32,987	18,220	22,109	**73,316**	80,340
Mexico	11,641	225	792	**12,658**	12,379
Other International					
Europe	16,259	5,311	5,583	**27,153**	27,691
Caribbean	27,162	1,276	2,052	**30,490**	27,743
Latin America (excluding Mexico)	23,154	754	1,359	**25,267**	24,109
All Other	22,858	1,982	2,029	**26,869**	22,970
Total	$354,426	$ 65,969	$ 56,342	**$476,737**	$475,100

(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 146 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, 2010 ($ millions)	Non-retail	Retail	Securitization	Repo-style transactions	Derivatives
Deposits with banks	$ 32,749	$ —	$ —	$ 5,294	$ —
Available-for-sale debt securities	26,507[2]	17,809	514	—	—
Residential mortgages	41,725[3]	78,393	—	—	—
Personal and credit cards loans	—	57,085	5,189	—	—
Securities purchased under resale agreements	—	—	—	27,920	—
Business and government loans	90,983	—	1,223	8,024	—
Customers' liability under acceptances	7,616	—	—	—	—
Derivative instruments	—	—	—	—	26,852
Other assets	1,434	125	—	—	—
Total	$201,014	$153,412	$ 6,926	$ 41,238	$ 26,852
As at October 31, 2009	$209,324	$138,874	$ 8,294	$ 27,582	$ 25,992

(1) Gross of allowances for credit losses for AIRB exposures and net of specific allowances for standardized exposures.

(2) Includes securities held as trading under fair value option.

(3) Includes government guaranteed residential mortgages.

(ii) Credit quality of non-retail exposures

Credit decisions are made based upon an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include: the borrower's management; the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; and geopolitical risk. Banking units and Global Risk Management also review the credit quality of the credit portfolio across the organization on a regular basis to assess whether economic trends or specific events may affect the performance of the portfolio.

The Bank's non-retail portfolio is well diversified by industry. As at October 31, 2010 and October 31, 2009, 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)	2010				2009
	Exposure at default[1]				
Category of internal grades	Drawn	Undrawn commitments	Other exposures[2]	Total	Total
Investment grade	$ 61,921	$ 36,404	$ 46,928	**$145,253**	$162,799
Non-investment grade	22,949	10,793	5,225	**38,967**	43,151
Watch list	2,420	410	355	**3,185**	5,204
Default	734	76	27	**837**	1,683
Total, excluding residential mortgages	$ 88,024	$ 47,683	$ 52,535	**$188,242**	$212,837
Government guaranteed residential mortgages[3]	41,200	7,533	—	**48,733**	43,497
Total	$129,224	$ 55,216	$ 52,535	**$236,975**	$256,334

(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 $783 (October 31, 2009 — $289) 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, 2010 comprised of drawn, undrawn and other exposures to corporate, bank and sovereign counterparties amounted to $79 billion (October 31, 2009 — $73 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 more customer focused than product focused. Generally, decisions on consumer loans are based on risk ratings, which are generated using predictive scoring models. Individual credit requests are processed by proprietary adjudication software designed to calculate the maximum debt for which a customer qualifies.

The Bank's retail portfolios consist of a number of relatively small loans to a large number of borrowers. The portfolios are distributed across Canada and a wide range of countries. As such, the portfolios inherently have a high degree of diversification.

Retail AIRB portfolio

The data in the table below provides a distribution of the retail AIRB exposure within each PD grade by exposure class:

As at October 31 ($ millions)		2010					2009
		Exposure at default[1]					
		Real estate secured					
Category of (PD) grades	PD range	Mortgages	Line of credit	Qualifying revolving	Other retail	Total	Total
Very low	0.0000 - 0.2099%	$ 58,380	$ 15,428	$ 5,415	$ 4,959	**$ 84,182**	$ 75,362
Low	0.2100 - 0.4599%	11,673	1,005	4,340	2,492	**19,510**	18,601
Medium	0.4600 - 3.1999%	9,596	1,375	7,931	4,347	**23,249**	22,748
High	3.200 - 17.2899%	740	307	1,079	335	**2,461**	2,297
Very high	17.2900 - 99.9999%	—	—	844	154	**998**	867
Default	100%	210	30	174	137	**551**	564
Total		$ 80,599	$ 18,145	$ 19,783	$ 12,424	**$130,951**	$120,439

(1) After credit risk mitigation.

Retail standardized portfolio

As at October 31, 2010, the retail standardized portfolio of $29 billion (October 31, 2009 — $25 billion) was comprised of residential mortgages, personal loans, credit cards and lines of credit to individuals, mainly in the Caribbean and Latin American region. Of the total retail standardized portfolio, $17 billion (October 31, 2009 — $13 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, 2010, the approximate market value of collateral accepted that may be sold or repledged by the Bank was $44.3 billion (2009 — $33.3 billion). This collateral is held primarily in connection with reverse repurchase agreements, securities borrowing and lending, and derivative transactions.

Collateral pledged

In the normal course of business, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Note 24(d) details the nature and extent of the Bank's asset pledging activities. Asset pledging 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, 2010 ($ 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	$ 55,641	$ 67,674	$ 167,711	$ 66,272	$ 4,352	**$361,650**
Subordinated debentures	—	—	—	251	5,688	**5,939**
Capital instrument liabilities	—	—	—	—	500	**500**
Total	$ 55,641	$ 67,674	$ 167,711	$ 66,523	$ 10,540	**$368,089**
As at October 31, 2009	$ 47,036	$ 66,798	$ 172,815	$ 59,102	$ 11,112	$356,863

(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, 2010 and October 31, 2009, approximately half of the commitments to extend credit had a remaining term to maturity of less than one year.

(iii) Derivative instruments

The Bank is subject to liquidity risk relating to its use of derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and lower its cost of capital. The maturity profile of the notional amounts of the Bank's derivative instruments is summarized in Note 28(b).

(c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board. The LCO and Market Risk Management and Policy Committee oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures.

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

VaR is a statistical measure that estimates the potential loss in value of the Bank's positions due to adverse market movements over a defined time horizon with a specified confidence level. The quality of the Bank's VaR is validated by regular back testing analysis, in which the VaR is compared to theoretical and actual profit and loss results. To complement VaR, the Bank also uses stress testing to examine the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis.

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers. Gap analysis is used to assess the interest rate sensitivity of the Bank's retail, wholesale banking and international operations. Under gap analysis, interest rate-sensitive assets, liabilities and derivative instruments are assigned to defined time periods, on the earlier of contractual repricing or maturity dates on the basis of expected repricing dates.

(i) Interest rate risk

Interest rate risk, inclusive of credit spread risk, is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's funding and investment activities is managed in accordance with Board-approved policies and global limits, which are designed to control the risk to income and economic value of shareholders' equity. The income limit measures the effect of a specified shift in interest rates on the Bank's annual net income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures in individual currencies are also controlled by gap limits.

Interest rate sensitivity gap

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity, and derivative instrument notional amounts in order to arrive at the Bank's interest rate gap based on the earlier of contractual repricing or maturity dates. To arrive at the Bank's view of its effective interest rate gap, adjustments are made to factor in expected mortgage and loan repayments based on historical patterns and reclassify the Bank's trading instruments to the Immediately rate sensitive and Within 3 months categories.

As at October 31, 2010 ($ 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	$ 1,392	$ 33,128	$ 1,614	$ —	$ —	$ 9,893	**$ 46,027**
Trading securities	—	3,723	7,149	17,867	13,681	22,264	**64,684**
Securities, other than trading	3,595	4,981	6,789	26,385	2,517	7,612(2)	**51,879**
Securities purchased under resale agreements	1,110	26,363	447	—	—	—	**27,920**
Loans	28,678	146,716	25,181	71,879	10,138	1,632(3)	**284,224**
Other assets	—	—	—	—	—	51,923(4)	**51,923**
Total assets	$ 34,775	$214,911	$ 41,180	$116,131	$ 26,336	$ 93,324	**$526,657**
Deposits	$ 51,563	$183,341	$ 45,580	$ 61,408	$ 2,827	$ 16,931	**$361,650**
Obligations related to securities sold under repurchase agreements	2,603	37,128	555	—	—	—	**40,286**
Obligations related to securities sold short	—	253	2,356	10,527	6,597	1,786	**21,519**
Subordinated debentures	—	—	176	4,223	1,540	—	**5,939**
Capital instrument liabilities	—	500	—	—	—	—	**500**
Other liabilities	—	—	—	—	—	69,132(4)	**69,132**
Shareholders' equity	—	—	—	—	—	27,631(4)	**27,631**
Total liabilities and shareholders' equity	$ 54,166	$221,222	$ 48,667	$ 76,158	$ 10,964	$115,480	**$526,657**
On-balance sheet gap	(19,391)	(6,311)	(7,487)	39,973	15,372	(22,156)	**—**
Derivative instruments	—	22,914	(4,585)	(18,261)	(68)	—	**—**
Interest rate sensitivity gap based on contractual repricing	(19,391)	16,603	(12,072)	21,712	15,304	(22,156)	**—**
Adjustment to expected repricing	11,439	16,046	2,546	(19,857)	(10,746)	572	**—**
Total interest rate sensitivity gap	**$ (7,952)**	**$ 32,649**	**$ (9,526)**	**$ 1,855**	**$ 4,558**	**$ (21,584)**	**$ —**
Cumulative gap	**$ (7,952)**	**$ 24,697**	**$ 15,171**	**$ 17,026**	**$ 21,584**	**$ —**	**$ —**

As at October 31, 2009 ($ millions)							
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	$ —	**$ —**

(1) Represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, prime rate loans.

(2) This represents common shares, preferred shares, and equity accounted investments.

(3) This represents net impaired loans, less the general allowance.

(4) This includes non-financial instruments.

Average effective yields by the earlier of the contractual repricing or maturity dates

The following tables summarize average effective yields, by the earlier of the contractual repricing or maturity dates, for the following interest rate-sensitive financial instruments:

As at October 31, 2010 (%)	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	2.8%	0.6%	0.9%	—%	—%	**0.7%**
Trading securities	—	1.1	1.6	2.4	3.6	**2.5**
Securities, other than trading (1)	1.2	4.5	3.7	4.2	4.2	**3.9**
Securities purchased under resale agreements	0.2	1.2	0.7	—	—	**1.2**
Loans(2)	5.0	3.5	4.3	4.9	6.2	**4.2**
Deposits(3)	0.8	0.9	2.4	3.2	5.4	**1.5**
Obligations related to securities sold under repurchase agreements(3)	0.2	1.2	1.7	—	—	**1.1**
Obligations related to securities sold short	—	0.9	1.1	1.3	3.0	**1.8**
Subordinated debentures(3)	—	—	0.7	5.4	6.3	**5.5(4)**
Capital instrument liabilities(3)	—	7.3	—	—	—	**7.3**

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

(1) Yields are based on cost or amortized cost and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. Yields on tax-exempt securities have not been computed on a taxable equivalent basis.

(2) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any unearned income.

(3) Yields are based on book values and contractual rates.

(4) After adjusting for the impact of related derivatives, the yield was 5.2% (2009 — 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	2010						2009	
	Net income			Economic value of equity				
($ millions)	Canadian dollar	Other currencies(1)	Total	Canadian dollar	Other currencies(1)	Total	Net income	Economic value of equity
100 bp increase	**$ 34**	**$ 16**	**$ 50**	**$ (110)**	**$ (305)**	**$ (415)**	$ 150	$ (188)
100 bp decrease	**$ (19)**	**$ (16)**	**$ (35)**	**$ 49**	**$ 362**	**$ 411**	$ (178)	$ 173
200 bp increase	**$ 70**	**$ 32**	**$ 102**	**$ (255)**	**$ (574)**	**$ (829)**	$ 306	$ (349)
200 bp decrease	**$ (49)**	**$ (31)**	**$ (80)**	**$ 92**	**$ 766**	**$ 858**	$ (400)	$ 555

(1) The 2010 net income and economic value of equity includes Mexican, Chilean and Peruvian currency balance sheets.

(ii) Non-trading foreign currency risk

Foreign currency risk is the risk of loss due to changes in spot and forward rates, and the volatility of currency exchange rates. Non-trading foreign currency risk, also referred to as structural foreign exchange risk, arises primarily from Bank's net investments in self-sustaining foreign operations and is controlled by a Board-approved limit. This limit considers potential volatility to shareholders' equity as well as the potential impact on capital ratios from foreign exchange fluctuations. On a quarterly basis, the LCO reviews the Bank's exposures to these net investments. The Bank may fully or partially hedge this exposure by funding the investments in the same currency, or by using other financial instruments, including derivatives.

The Bank is subject to foreign currency risk on the earnings of its foreign operations. To manage this risk, foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, are projected over a number of future fiscal quarters. The LCO assesses economic data and forecasts to decide on the portion of the estimated future foreign currency revenues and expenses to hedge. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency options and swaps.

As at October 31, 2010, 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 $34 million (October 31, 2009 — $32 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, 2010 would increase (decrease) the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately $199 million (October 31, 2009 — $187 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, 2010	For the year ended October 31, 2010			As at October 31, 2009
		Average	High	Low	
Interest rate	**$ 9.0**	$ 11.7	$ 19.0	$ 7.3	$ 15.6
Equities	**3.4**	5.1	14.1	2.3	3.0
Foreign exchange	**0.9**	1.7	4.6	0.6	3.4
Commodities	**1.5**	2.1	5.6	0.6	3.7
Diversification	**(6.3)**	(8.1)	n/a	n/a	(10.5)
All-Bank VaR	**$ 8.5**	$ 12.5	$ 19.5	$ 7.4	$ 15.2

26 Financial instruments – fair value

Fair value is normally defined as the amount of consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is quoted bid or ask prices in an active market. Quoted prices are not always available for over-the-counter transactions, as well as transactions in inactive or illiquid markets. In these instances, internal models, normally with observable market-based inputs, are used to estimate fair value. Financial instruments traded in a less active market have been valued using indicative market prices, present value or other valuation techniques. Fair value estimates normally do not consider forced or liquidation sales. Where financial instruments trade in inactive markets or when using models where observable parameters do not exist, greater management judgement is required for valuation purposes. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and therefore may not be reflective of future fair values.

Changes in interest rates and credit spreads are the main cause of changes in the fair value of the Bank's financial instruments resulting in a favourable or unfavourable variance compared to book value. For the Bank's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For available-for-sale securities, derivatives and financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value.

The book value of certain financial assets and financial liabilities that are carried at cost or amortized cost may exceed their fair value due primarily to changes in interest rates and credit spreads. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair value as it is the Bank's intention to hold them until there is a recovery of fair value, which may be to maturity.

Fair value of financial instruments

The following table sets out the fair values of financial instruments of the Bank using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

	2010			2009		
As at October 31 ($ millions)	Total fair value	Total carrying value	Favourable/ (Unfavourable)	Total fair value	Total carrying value	Favourable/ (Unfavourable)
Assets:						
Cash resources	**$ 46,027**	**$ 46,027**	**$ —**	$ 43,278	$ 43,278	$ —
Securities	**116,563**	**116,563**	**—**	117,294	117,294	—
Securities purchased under resale agreements	**27,920**	**27,920**	**—**	17,773	17,773	—
Loans	**285,982**	**284,224**	**1,758**	266,894	266,302	592
Customers' liability under acceptances	**7,616**	**7,616**	**—**	9,583	9,583	—
Derivative instruments (Note 28)	**26,852**	**26,852**	**—**	25,992	25,992	—
Other	**6,820**	**6,820**	**—**	5,801	5,801	—
Liabilities:						
Deposits	**363,323**	**361,650**	**(1,673)**	352,691	350,419	(2,272)
Acceptances	**7,616**	**7,616**	**—**	9,583	9,583	—
Obligations related to securities sold under repurchase agreements	**40,286**	**40,286**	**—**	36,568	36,568	—
Obligations related to securities sold short	**21,519**	**21,519**	**—**	14,688	14,688	—
Other	**29,063**	**29,063**	**—**	23,754	23,754	—
Subordinated debentures	**6,439**	**5,939**	**(500)**	6,385	5,944	(441)
Capital instrument liabilities	**505**	**500**	**(5)**	531	500	(31)
Derivative instruments (Note 28)	**31,990**	**31,990**	**—**	28,806	28,806	—

Determination of fair value

The following methods and assumptions were used to estimate the fair values of financial instruments (refer to Note 28(d) for fair value of derivative instruments).

The fair values of cash resources, securities purchased under resale agreements, customers' liability under acceptances, other assets, obligations related to securities sold under repurchase agreements, acceptances and other liabilities are assumed to approximate their carrying values, due to their short-term nature.

Fair values of securities are disclosed in Note 3 for those securities that have quoted market prices; for available-for-sale equity securities that have no quoted market prices, the amounts reflected in the table above include such securities at cost. The 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.

	2010				2009			
As at October 31 ($ millions)	Level 1	Level 2(1)	Level 3	Total	Level 1	Level 2(1)	Level 3	Total
Assets:								
Trading securities(2)	**$ 48,869**	**$ 14,689**	**$ 1,126**	**$ 64,684**	$ 40,408	$ 15,683	$ 1,976	$ 58,067
Available-for-sale securities(3)	**13,801**	**31,246**	**1,263**	**46,310**	16,485	36,861	1,395	54,741
Derivative instruments	**499**	**25,652**	**701**	**26,852**	81	24,683	1,228	25,992
Liabilities:								
Obligations related to securities sold short	**$ 17,685**	**$ 3,832**	**$ 2**	**$ 21,519**	$ 11,707	$ 2,981	$ —	$ 14,688
Derivative instruments	**506**	**29,051**	**2,433**	**31,990**	105	26,188	2,513	28,806

(1) Loans and deposit notes designated as trading are classified as Level 2.

(2) Includes securities designated as trading. Level 2 trading securities are comprised of $4,710 (2009 – $4,861) of bonds mainly issued by foreign governments and $9,979 (2009 –$10,822) of corporate bonds and other debt and equity instruments which generally trade in public markets.

(3) Excludes available-for-sale equity securities that are not quoted in an active market of $918 (2009 – $958). Level 2 available-for-sale securities include $4,757 (2009 – $7,204) of bonds mainly issued by foreign governments and $7,810 (2009 – $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.

Level 3 instrument fair value changes

The following table summarizes changes in Level 3 instruments during the year.

	2010			2009		
As at October 31 ($ millions)	Trading securities(1)	Available-for-sale securities	Derivative instruments	Trading securities(1)	Available-for-sale securities	Derivative instruments
Balance at beginning of year	**$ 1,976**	**$ 1,395**	**$ (1,285)(2)**	$ 3,303	$ 1,249	$ (1,177)(2)
Gains (losses) recorded in net income(3)	**(16)**	**9**	**(268)**	(426)	(48)	(63)
Gains (losses) recorded in other comprehensive income	**—**	**6**	**—**	—	10	—
Net purchases, sales, issuances and settlements	**(742)**	**(142)**	**(196)**	(901)	228	(45)
Other, net	**(94)**	**(5)**	**17**	—	(44)	—
Balance at end of year	**$ 1,124**	**$ 1,263**	**$ (1,732)(2)**	$ 1,976	$ 1,395	$ (1,285)(2)

(1) Changes in Level 3 trading securities are net of changes in Level 3 obligations related to securities sold short. There were no Level 3 obligations related to securities sold short during 2009.

(2) Represents a net liability.

(3) Gains or losses for items in Level 3 may be offset with losses or gains on related hedges in Level 1 or Level 2.

Level 3 sensitivity analysis

The Bank applies judgment in determining unobservable inputs used to calculate the fair value of Level 3 instruments. Included in the Bank's Level 3 available-for-sale securities are certain securitization retained interests, illiquid debt instruments and structured credit investments. The unobservable inputs used in the valuation of these securities primarily include mortgage prepayment rates, the correlation of default, certain bond yields, as well as the timing and amount of cash flows. A sensitivity analysis has been performed to determine the potential gain or loss by varying the different assumptions by different amounts (for example, varying bond yields by – 0.1% to + 1.0%). For the Bank's available-for-sale securities, the impact of applying these other reasonably possible assumptions is a potential gain or loss of $40 million (2009 – $62 million) and $85 million (2009 – $83 million), respectively. The component of this potential gain or loss that would be recorded through other comprehensive income is $38 million (2009 – $47 million) and $74 million (2009 – $68 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 instruments, trading securities and obligations related to securities sold short are unfunded synthetic collateralized debt obligations, certain interest rate swaps and equity options, and equity investments that are not quoted in an active market. The unobservable inputs used in the valuation of these instruments primarily include the correlation of default, mortgage prepayment rates and equity option volatilities. A sensitivity analysis has been performed on these valuations by varying the different assumptions by different amounts (for example, varying mortgage prepayment rates by +/- 5%). For the Bank's trading securities, derivative instruments and obligations related to securities sold short, the impact of applying these other reasonably possible assumptions is a potential net gain or loss of $117 million (2009 – $144 million) and $121 million (2009 – $128 million), respectively.

27 Financial instruments designated as trading

The Bank has elected to designate certain portfolios of assets and liabilities as trading, which are carried at fair value with changes in fair values recorded in income. These portfolios include:

- loans to economically hedge the derivative exposure arising from credit derivatives in the trading book transacted on behalf of customers, in order to significantly reduce or eliminate an accounting mismatch.
- loans in specifically authorized trading portfolios for which performance is evaluated on a fair value basis.
- certain debt and equity investments, in order to reduce an accounting mismatch between these assets and fair value changes in related derivatives.
- certain deposit note liabilities containing extension features, in order to significantly reduce an accounting mismatch between these liabilities and fair value changes in related derivatives.

The following table presents the fair value of assets and liabilities designated as trading and their changes in fair value.

	Fair value		Change in fair value[1]		
As at and for the year ended October 31 ($ millions)	**2010**	2009	**2010**	2009	2008
Loans hedging derivative exposures[2]	**$ 2,096**	$ 3,542	**$ 243**	$ 740	$ (1,765)
Proprietary loans	**2**	47	**(6)**	15	(3)
Debt and equity investments	**2,764**	4,283	**146**	190	(41)
Deposit note liabilities[3]	**99**	22	**(1)**	(2)	(15)

(1) These amounts were recorded in trading income except for deposit liabilities and certain debt investments which were recorded in net interest income.

(2) The changes in fair value of these loans were substantially offset by the changes in the fair value of the related credit derivatives.

(3) The Bank was contractually obligated to pay $97 to the holders of the notes at maturity (2009 – $22).

28 Derivative instruments

(a) Notional amounts

The following table provides the aggregate notional amounts of derivative instruments outstanding by type and segregated between those used by the Bank in its dealer capacity (Trading) and those used in the Bank's asset/liability risk management process (ALM), which includes derivatives designated in hedging relationships. The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Credit derivatives within other derivative contracts are comprised primarily of purchased and sold credit default swap transactions. To a lesser extent, this category also includes total return swaps referenced to loans and debt securities. Other derivative contracts – other includes precious metals other than gold, and other commodities including energy and base metal derivatives.

	2010			2009		
As at October 31 ($ millions)	Trading	ALM	Total	Trading	ALM	Total
Interest rate contracts						
Exchange-traded:						
Futures	$ 102,338	$ 6,974	**$ 109,312**	$ 62,713	$ 11,281	$ 73,994
Options purchased	47,635	—	**47,635**	22,536	—	22,536
Options written	44,332	—	**44,332**	28,485	—	28,485
	194,305	6,974	**201,279**	113,734	11,281	125,015
Over-the-counter:						
Forward rate agreements	112,520	8,888	**121,408**	49,914	3,051	52,965
Swaps	1,023,880	113,194	**1,137,074**	774,859	90,181	865,040
Options purchased	37,358	490	**37,848**	11,875	1,165	13,040
Options written	13,441	40	**13,481**	14,137	—	14,137
	1,187,199	122,612	**1,309,811**	850,785	94,397	945,182
Total	$1,381,504	$129,586	**$1,511,090**	$ 964,519	$105,678	$1,070,197
Foreign exchange and gold contracts						
Exchange-traded:						
Futures	$ 7,614	$ —	**$ 7,614**	$ 8,416	$ —	$ 8,416
Options purchased	2,184	—	**2,184**	952	—	952
Options written	2,407	—	**2,407**	1,054	—	1,054
	12,205	—	**12,205**	10,422	—	10,422
Over-the-counter:						
Spot and forwards	197,308	35,255	**232,563**	178,886	24,139	203,025
Swaps	139,376	16,864	**156,240**	95,203	23,647	118,850
Options purchased	3,239	—	**3,239**	2,754	—	2,754
Options written	3,480	—	**3,480**	3,450	—	3,450
	343,403	52,119	**395,522**	280,293	47,786	328,079

Total	$ 355,608	$ 52,119	**$ 407,727**	$ 290,715	$ 47,786	$ 338,501
Other derivative contracts						
Equity: over-the-counter	$ 34,906	$ 1,868	**$ 36,774**	$ 27,649	$ 2,675	$ 30,324
Credit: over-the-counter	79,486	822	**80,308**	88,935	1,602	90,537
Other	18,916	12	**18,928**	10,081	12	10,093
Total	$ 133,308	$ 2,702	**$ 136,010**	$ 126,665	$ 4,289	$ 130,954
Total notional amounts outstanding	$1,870,420	$184,407	**$2,054,827**	$1,381,899	$157,753	$1,539,652

(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, 2010 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 71,407	$ 37,905	$ —	**$ 109,312**
Forward rate agreements	112,619	8,767	22	**121,408**
Swaps	486,014	504,647	146,413	**1,137,074**
Options purchased	81,573	3,655	255	**85,483**
Options written	53,589	3,878	346	**57,813**
	805,202	558,852	147,036	**1,511,090**
Foreign exchange and gold contracts				
Futures	4,444	3,090	80	**7,614**
Spot and forwards	222,755	9,158	650	**232,563**
Swaps	38,453	74,564	43,223	**156,240**
Options purchased	4,727	696	—	**5,423**
Options written	5,196	691	—	**5,887**
	275,575	88,199	43,953	**407,727**
Other derivative contracts				
Equity	24,203	12,158	413	**36,774**
Credit	16,376	55,497	8,435	**80,308**
Other	9,497	9,046	385	**18,928**
	50,076	76,701	9,233	**136,010**
Total	$1,130,853	$723,752	$200,222	**$2,054,827**

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

(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, 2010.

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.

	2010			2009	
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	**$ 109,312**	**$ —**	**$ —**	$ —	$ —
Forward rate agreements	**121,408**	**30**	**75**	5	16
Swaps	**1,137,074**	**13,139**	**16,914**	10,956	14,376
Options purchased	**85,483**	**170**	**192**	227	263
Options written	**57,813**	**—**	**—**	—	—
	1,511,090	**13,339**	**17,181**	11,188	14,655
Foreign exchange and gold contracts					
Futures	**7,614**	**—**	**—**	—	—
Spot and forwards	**232,563**	**3,928**	**6,448**	3,336	5,504
Swaps	**156,240**	**6,451**	**13,806**	6,049	12,238
Options purchased	**5,423**	**183**	**265**	89	142
Options written	**5,887**	**—**	**—**	—	—
	407,727	**10,562**	**20,519**	9,474	17,884
Other derivative contracts					
Equity	**36,774**	**779**	**2,548**	1,267	2,807
Credit	**80,308**	**1,480**	**5,752**	3,578	8,491
Other	**18,928**	**692**	**2,085**	485	1,299
	136,010	**2,951**	**10,385**	5,330	12,597
Total derivatives	**$2,054,827**	**$ 26,852**	**$ 48,085**	$ 25,992	$ 45,136
Less: impact of master netting and collateral		**19,816**	**29,711**	18,293	26,649
Total		**$ 7,036**	**$ 18,374**	$ 7,699	$ 18,487
Total risk weighted assets			**$ 5,656**		$ 6,092

(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).

	2010		2010		2009	
	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	$ 17	$ 14	**$ 27**	**$ 23**	$ 5	$ 4
Swaps	10,474	10,415	**12,134**	**11,983**	9,808	9,875
Options	169	188	**169**	**162**	227	258
	10,660	10,617	**12,330**	**12,168**	10,040	10,137
Foreign exchange and gold contracts						
Forwards	3,493	3,841	**3,692**	**4,229**	3,046	3,228
Swaps	5,757	5,397	**5,696**	**5,609**	5,143	4,846
Options	116	124	**183**	**180**	89	109
	9,366	9,362	**9,571**	**10,018**	8,278	8,183
Other derivative contracts						
Equity[2]	1,026	1,735	**739**	**1,968**	1,223	1,401
Credit[2]	2,194	3,247	**1,446**	**3,132**	3,544	4,153
Other	512	610	**692**	**1,007**	485	468
	3,732	5,592	**2,877**	**6,107**	5,252	6,022
Trading derivatives' market valuation	$ 23,758	$ 25,571	**$ 24,778**	**$ 28,293**	$ 23,570	$ 24,342
ALM						
Interest rate contracts						
Forward rate agreements			**$ 3**	**$ 4**	$ —	$ —
Swaps			**1,005**	**1,757**	1,148	2,169
Options			**1**	**—**	—	—
			1,009	**1,761**	1,148	2,169
Foreign exchange and gold contracts						
Forwards			**236**	**778**	290	527
Swaps			**755**	**1,029**	906	1,233
Options			**—**	**—**	—	—
			991	**1,807**	1,196	1,760
Other derivative contracts						
Equity			**40**	**7**	44	49
Credit			**34**	**122**	34	486
Other			**—**	**—**	—	—
			74	**129**	78	535
ALM derivatives' market valuation			**$ 2,074**	**$ 3,697**	$ 2,422	$ 4,464
Total derivative instruments before netting			**$ 26,852**	**$ 31,990**	$ 25,992	$ 28,806
Less: impact of master netting and collateral			**19,816**	**19,816**	18,293	18,293
Total derivative instruments			**$ 7,036**	**$ 12,174**	$ 7,699	$ 10,513

(1) The average fair value of trading derivatives' market valuation for the year ended October 31, 2009 were: favourable $35,680 and unfavourable $35,093. Average fair value amounts are based on month-end balances.

(2) A substantial portion of these derivative contracts are hedging exposures that are not derivative instruments and are classified elsewhere on the balance sheet, primarily trading securities and trading loans.

Included in the above ALM derivatives' market valuation amounts are derivatives designated in hedging relationships as follows:

As at October 31 ($ millions)	2010 Favourable	2010 Unfavourable	2009 Favourable	2009 Unfavourable
Derivatives designated in fair value hedging relationships	**$ 730**	**$ 552**	$ 565	$ 694
Derivatives designated in cash flow hedging relationships	**126**	**825**	250	1,351
Derivatives designated in net investment hedging relationships	**4**	**24**	—	31
Total derivatives designated in hedging relationships	**$ 860**	**$ 1,401**	$ 815	$ 2,076

Due to the ineffective portion of designated hedges, the Bank recorded a gain of $105 million (2009 – a gain of $127 million; 2008 – nil) in net interest income, of which a gain of $28 million (2009 – gain of $51 million; 2008 – gain of $12 million) related to cash flow hedges. No ineffectiveness was recognized on net investment hedges.

29 Acquisitions

Current year

International acquisitions

Thanachart Bank and Siam City Bank

On April 9, 2010 the Bank's affiliate Thanachart Bank (Scotiabank currently owns 49%), acquired a 48% stake of Thailand's Siam City Bank. In accordance with securities laws in Thailand, upon closing of the 48% stake, Thanachart Bank launched a tender offer for the remaining shares in Siam City Bank. The completed tender offer resulted in Thanachart Bank owning 99% of Siam City Bank. As part of the financing for this transaction, Scotiabank subscribed to additional shares in Thanachart Bank of approximately $663 million. This investment is accounted for under the equity method of accounting.

R-G Premier Bank of Puerto Rico

On April 30, 2010, the Bank, through its subsidiary Scotiabank de Puerto Rico, acquired R-G Premier Bank of Puerto Rico. Under the terms of the transaction, Scotiabank acquired US$5.6 billion in assets, which includes US$5.2 billion of loans covered under a loss sharing agreement with the Federal Deposit Insurance Corporation ("FDIC"). Under this agreement, the FDIC guarantees 80% of loan losses. The acquisition also includes US$2.2 billion in deposits with the remainder financed by the FDIC.

The preliminary purchase price allocation for the R-G Premier Bank acquisition was recorded in the fourth quarter. Based on current estimates of acquisition date fair values, the total purchase price has been allocated to US$5 billion in tangible assets, primarily residential mortgages, some commercial loans and approximately US$0.8 billion allocated to the FDIC indemnification asset; US$2.2 billion of liabilities, primarily deposits assumed, and an estimated value of goodwill and intangibles of approximately US$0.2 billion. The purchase price allocation may be refined as the Bank completes its valuation of the assets acquired and liabilities assumed.

Royal Bank of Scotland's Corporate & Commercial Banking Operations in Chile

On September 27, 2010, the Bank announced its agreement to acquire the Royal Bank of Scotland's (RBS) corporate and commercial banking operations in Chile. The purchase will result in the Bank acquiring approximately US$900 million in total assets of RBS. The transaction is subject to regulatory approval.

Prior year

Canadian acquisitions

E*TRADE Canada

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.

CI Financial Income Fund

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.

International acquisition

Thanachart Bank

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 continues to be accounted for under the equity method of accounting.

30 Subsequent events

Acquisition of DundeeWealth Inc.

On November 22, 2010, the Bank announced an agreement to make an offer for all the common shares of DundeeWealth Inc. (DundeeWealth) that it does not own, which will increase the Bank's ownership from 18 per cent to 100 per cent. As of the date the transaction was announced, the value of the offer to DundeeWealth shareholders was $21 per common share which results in an approximate cost of the transaction of $2.3 billion. For each DundeeWealth common share, the Bank will offer 0.2497 of its common shares and, at the election of each shareholder, either $5.00 in cash or 0.2 of its $25.00, 3.70% five year rate reset preferred shares. Prior to closing, all DundeeWealth shareholders will also receive a special distribution of $2.00 per share in cash as well as an interest in Dundee Capital Markets, with an approximate value of $0.50 per

DundeeWealth share, which DundeeWealth will spin out to its shareholders in connection with the transaction. The transaction is subject to shareholder and regulatory approvals.

Redemption of capital instrument liabilities

On November 26, 2010, the Bank announced BNS Capital Trust's intention to redeem all issued and outstanding Scotiabank Trust Securities – Series 2000-1 on December 31, 2010, the redemption date.

31 Reconciliation of Canadian and United States generally accepted accounting principles (GAAP)

The consolidated financial statements of the Bank have been prepared in accordance with Canadian GAAP. The significant measurement differences between Canadian and U.S. GAAP affecting the consolidated financial statements are as follows:

Reconciliation of net income

	Net income		
For the year ended October 31 ($ millions)	**2010**	2009	2008
Net income based on Canadian GAAP	**$ 4,239**	$ 3,547	$ 3,140
Employee future benefits (a)	**(82)**	(91)	(24)
Restructuring costs (b)	**—**	—	(8)
Transfers of loans through securitizations (c)	**(14)**	—	—
Derivative instruments and hedging activities (d)	**(124)**	(427)	201
Unrealized gains (losses) on securities reclassified (f)	**57**	(17)	(63)
Conversion of loans into debt securities (f)	**66**	39	(16)
Available-for-sale securities (f)	**—**	—	(7)
Computer software (g)	**(3)**	(3)	(7)
Stock-based compensation (h)	**31**	5	(41)
Business combinations and non-controlling interest in subsidiaries (l)	**(6)**	—	—
Equity accounted investments (n)	**23**	—	—
Tax effect of above differences	**(19)**	119	(20)
Net income based on U.S. GAAP	**$ 4,168**	$ 3,172	$ 3,155
Preferred dividends paid	**(201)**	(186)	(107)
Net income available to common shareholders based on U.S. GAAP	**$ 3,967**	$ 2,986	$ 3,048
Earnings per common share based on U.S. GAAP (in dollars) (1):			
Basic	**$ 3.84**	$ 2.95	$ 3.09
Diluted	**$ 3.84**	$ 2.94	$ 3.07

(1) Earnings per share calculations are based on full dollar and share amounts.

(a) Employee future benefits

U.S. GAAP requires: (i) the recognition of a pension and other post-retirement plan's over-funded or under-funded status as an asset or liability, respectively; and (ii) the recognition of existing unrecognized net actuarial gains and losses, prior service costs and credits, and net transitional assets or obligations in other comprehensive income. Canadian GAAP requires that only the cumulative difference between pension income/expense and funding contributions be reflected in the Bank's Consolidated Balance Sheet.

Although Canadian and U.S. GAAP are substantially consistent with respect to recognition and measurement of pension expense, there continues to be a difference in the charge to income between Canadian and U.S. GAAP, principally due to differences in the amortization of the transitional amounts resulting from differing adoption dates of the previous standards, and differences in the treatment of the pension valuation allowance.

Canadian GAAP requires recognition of a pension valuation allowance for any excess of the prepaid benefit expense over the expected future benefit. These changes in the pension valuation allowance are recognized in the Consolidated Statement of Income. U.S. GAAP does not permit recognition of a pension valuation allowance.

Commencing in fiscal 2009, U.S. GAAP requires the measurement of defined benefit plan assets and obligations at the fiscal year-end date. The impact of the 2009 adoption of the requirement to measure defined benefit plan assets and obligations at the fiscal year-end date was an increase of $2 million to other assets, an increase of $22 million to other liabilities, a decrease of $32 million to retained earnings (net of income taxes is $24 million), and an increase of $6 million (net of income taxes is $4 million) in accumulated other comprehensive income.

(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. As a result, differences in Canadian and U.S. GAAP income will continue until the deferred gains related to assets securitized prior to July 1, 2001

have all been recognized in Canadian GAAP income, which occurred in fiscal 2010.

Prior to the harmonization of Canadian and U.S. GAAP on July 1, 2001, 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

Canadian GAAP, as described in Note 1, is substantially consistent with U.S. GAAP for the Bank's activities relating to derivatives and hedging. The current year reconciling items between Canadian and U.S. GAAP mainly relate to the classification of certain guarantees.

Prior to August 1, 2010, U.S. GAAP did not require bifurcation of credit-related embedded derivatives in synthetic collateralized debt obligation (CDO) structures. As a result, changes in fair value of these embedded derivatives from November 1, 2009 to July 31, 2010 were reclassified from net income to other comprehensive income as a reconciling item between Canadian GAAP and U.S. GAAP.

Effective August 1, 2010, U.S. GAAP required the bifurcation of credit-related embedded derivatives in such CDO structures. The change in fair value of the embedded derivatives is to be recognized in income, consistent with Canadian GAAP. The cumulative transition impact of the U.S. GAAP amendment as at August 1, 2010, was an after-tax loss of $23 million (net of income taxes of $9 million) that was reclassified from accumulated other comprehensive income to retained earnings.

(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 are carried at amortized cost. Impairment on these assets is recognized only to the extent of incurred credit losses. U.S. GAAP precludes securities from being classified as loans. As a result, certain debt securities which are classified as loans under Canadian GAAP are classified as available-for-sale under U.S. GAAP. This resulted in a balance sheet reconciling item between loans, available-for-sale debt securities, and other comprehensive income.

Effective May 1, 2009, under U.S. GAAP, certain impaired available-for-sale debt instruments are written down to the extent of incurred credit losses. Under Canadian GAAP, impaired available-for-sale debt instruments are written down to fair value. As the Bank's available-for-sale debt securities under Canadian GAAP contains a limited number of impairment write-downs, effectively for credit-related losses, this U.S. GAAP change had no impact on the Bank.

(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 available-for-sale securities.

Canadian GAAP was amended in October 2008 allowing a reclassification of non-derivative financial assets out of the trading category under rare circumstances. The Bank reclassified certain trading securities to available-for-sale securities effective August 1, 2008, as permitted under Canadian GAAP. Under U.S. GAAP, this reclassification was effective October 31, 2008.

(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, 2010	October 31, 2009
Risk-free interest rate	1.63%	1.71%
Expected dividend yield	3.52%	4.27%
Expected price volatility	27.3%	33.4%
Expected life of option	6.4 years	6.5 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 $6,211 million (2009 – $5,750 million) and an addition to other liabilities of $6,211 million (2009 – $5,750 million).

(k) Comprehensive income

Both Canadian and U.S. GAAP require a separate Statement of Comprehensive Income. The reconciling items between Canadian and U.S. GAAP mainly result from changes in assets and liabilities relating to employee future benefits, bifurcation of embedded derivatives in synthetic CDOs, and certain debt securities classified as loans. These reconciling items are further discussed in (a), (d) and (e).

(l) Business combinations and Non-controlling interest in subsidiaries

Effective November 1, 2009, the Bank adopted for U.S. GAAP purposes, FASB ASC Topic 805 Business Combinations and Topic 810 Consolidations. These standards require most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination be recorded at fair value as at the acquisition date; all acquisition related and restructuring costs are expensed and non-controlling interest in subsidiaries is classified as a separate component of equity. Under Canadian GAAP, acquisition related and restructuring costs are capitalized as part of the purchase consideration.

Under Canadian GAAP, increases in ownership interest of an acquiree where control has already been obtained are accounted for under the purchase method. Goodwill is proportionately adjusted based on the percentage purchased. Under U.S. GAAP, purchases of equity interests that do not result in a change in control are accounted for as equity transactions. Goodwill is not affected.

(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, 2009 was $540 million. There was a net $75 million increase during 2010 related to tax positions taken during the current and prior periods. The 2010 balance of $615 million of unrecognized tax benefits, if recognized, would affect the effective tax rate. The Bank operates in Canada, the U.S. and other foreign jurisdictions, subject to examination by tax authorities.

(n) Equity accounted investments

Under Canadian GAAP, for equity accounted investments, the Bank applies equity accounting prospectively from the date it has obtained significant influence. Under U.S. GAAP, the investment, results of operations, and retained earnings of the investor is adjusted retrospectively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the investment was held. The impact of the adjustment as at October 31, 2010 was an increase of $23 million in pre-tax income and equity accounted investments.

Consolidated statement of comprehensive income (loss)

	2010			2009	2008
For the year ended October 31 ($ millions)	Canadian GAAP	Adjustments	U.S. GAAP		
Net income	**$ 4,239**	**$ (71)**	**$ 4,168**	$ 3,172	$ 3,155
Other comprehensive income (loss), net of income taxes:					
Change in unrealized foreign currency translation gains (losses), net of hedging activities(1)	**(591)**	**(2)**	**(593)**	(1,739)	2,442
Change in unrealized gains (losses) on available-for-sale securities, net of hedging activities(2)	**278**	**13**	**291**	1,303	(1,683)
Change in gains (losses) on derivative instruments designated as cash flow hedges (3)	**62**	**—**	**62**	43	(525)
Change in pension asset and liability (4)	**—**	**(322)**	**(322)**	(548)	35
Total other comprehensive income (loss)	**$ (251)**	**$ (311)**	**$ (562)**	$ (941)	$ 269
Total comprehensive income (loss)	**$ 3,988**	**$ (382)**	**$ 3,606**	$ 2,231	$ 3,424

Accumulated other comprehensive income (loss) (5)

	2010			2009	2008
For the year ended October 31 ($ millions)	Canadian GAAP	Adjustments	U.S. GAAP		
Unrealized foreign currency translation gains (losses), net of hedging activities	**$ (4,508)**	**$ (47)**	**$ (4,555)**	$ (3,962)	$ (2,223)
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	**818**	**(183)**	**635**	321	(982)
Derivative instruments designated as cash flow hedges	**(361)**	**1**	**(360)**	(422)	(465)
Employee future benefits	**—**	**(1,117)**	**(1,117)**	(795)	(251)
Total accumulated other comprehensive income (loss)	**$ (4,051)**	**$ (1,346)**	**$ (5,397)**	$ (4,858)	$ (3,921)

(1) U.S. GAAP amounts are net of income tax expense of $117 (2009 – expense of $328; 2008 – benefit of $159).

(2) U.S. GAAP amounts are net of income tax expense of $98 (2009 – expense of $570; 2008 – benefit of $717).

(3) U.S. GAAP amounts are net of income tax expense of $46 (2009 – expense of $44; 2008 – benefit of $246).

(4) U.S. GAAP amounts are net of income tax benefit of $181 (2009 – benefit of $290; 2008 – expense of $12).

(5) All amounts presented are net of income tax.

Condensed consolidated balance sheet

As at October 31 ($ millions)	2010 Canadian GAAP	2010 Adjustments	2010 U.S. GAAP	2009 Canadian GAAP	2009 Adjustments	2009 U.S. GAAP
Assets						
Cash resources	**$ 46,027**	**$ —**	**$ 46,027**	$ 43,278	$ —	$ 43,278
Securities						
Trading	**64,684**	**895[f]**	**65,579**	58,067	(314)[f]	57,753
Available-for-sale	**47,228**	**6,097[e,f]**	**53,325**	55,699	7,244[e,f]	62,943
Equity accounted investments	**4,651**	**23[n]**	**4,674**	3,528	—	3,528
Securities purchased under resale agreements	**27,920**	**—**	**27,920**	17,773	—	17,773
Loans	**284,224**	**(6,483)[e]**	**277,741**	266,302	(6,197)[c,d,e]	260,105
Derivative instruments	**26,852**	**111[d]**	**26,963**	25,992	163[d]	26,155
Other	**25,071**	**10,831(1)**	**35,902**	25,877	11,242(5)	37,119
	$526,657	**$ 11,474**	**$538,131**	$496,516	$ 12,138	$508,654
Liabilities and shareholders' equity						
Liabilities						
Deposits	**$361,650**	**$ 4[d]**	**$361,654**	$350,419	$ 1,596[c,d]	$352,015
Derivative instruments	**31,990**	**—**	**31,990**	28,806	(5)[d]	28,801
Other	**98,368**	**13,272(2)**	**111,640**	85,521	11,944(6)	97,465
Non-controlling interest in subsidiaries	**579**	**(579)[l]**	**—**	554	(554)[l]	—
Subordinated debentures	**5,939**	**—**	**5,939**	5,944	—	5,944
Capital instrument liabilities	**500**	**(500)[i]**	**—**	500	(500)[i]	—
	$499,026	**$ 12,197**	**$511,223**	$471,744	$ 12,481	$484,225
Shareholders' equity						
Capital stock						
Preferred shares	**$ 3,975**	**$ —**	**$ 3,975**	$ 3,710	$ —	$ 3,710
Common shares and contributed surplus	**5,775**	**—**	**5,775**	4,946	—	4,946
Retained earnings	**21,932**	**(433)(3)**	**21,499**	19,916	(339)(7)	19,577
Accumulated other comprehensive income (loss)	**(4,051)**	**(1,346)(4)**	**(5,397)**	(3,800)	(1,058)(8)	(4,858)
Changes in ownership interest in a subsidiary after control is obtained	**—**	**(23)[l]**	**(23)**	—	—	—
Non-controlling interest in subsidiaries	**—**	**1,079[i,l]**	**1,079**	—	1,054[i,l]	1,054
	$ 27,631	**$ (723)**	**$ 26,908**	$ 24,772	$ (343)	$ 24,429
	$526,657	**$ 11,474**	**$538,131**	$496,516	$ 12,138	$508,654

Note references refer to GAAP differences described above.

(1) Refer to a, b, c, d, e, f, g, j, l.

(2) Refer to a, c, d, f, h, j, l, n.

(3) Refer to a, b, d, f, g, h, l, n.

(4) Refer to a, d, e, f, k.

(5) Refer to a, b, c,d, e, 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, e, f, k.

Future accounting changes

Accounting for transfers of financial assets

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. This standard will be effective commencing November 1, 2010 for U.S. GAAP purposes. The Bank is currently assessing the impact of this standard.

Consolidation of variable interest entities

Amendments have been made to FASB ASC 810-10 Consolidation of Variable Interest Entities. The new standard changes the approach for determining the primary beneficiary of a variable interest entity from a quantitative risk and reward model to a qualitative model, based on control and economics. The new standard also requires that the primary beneficiary analysis be reevaluated whenever circumstances change or at each reporting period, whichever is earlier. This standard will be effective commencing November 1, 2010 for U.S. GAAP purposes. The Bank is currently assessing the impact of this standard.

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, 2010, 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 3, 2010

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, 2010, 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, 2010, 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, 2010 and 2009 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, 2010 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Our report dated December 3, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP
Chartered Accountants, Licensed Public Accountants Toronto, Canada,
December 3, 2010

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 3, 2010, 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, David A. Dodge, N. Ashleigh Everett, John C. Kerr, The Honourable Michael J.L. Kirby, John T. Mayberry, Thomas C. O'Neill, 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 3, 2010 on the Consolidated Balance Sheets of the Bank as at October 31, 2010 and 2009, 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, 2010;

(ii) our Comments by Auditors for US Readers on Canada-US Reporting Differences, dated December 3, 2010; and

(iii) our Report of Independent Registered Public Accounting Firm dated December 3, 2010 on the Bank's internal control over financial reporting as of October 31, 2010

each of which is contained in this annual report on Form 40-F of the Bank for the fiscal year ended October 31, 2010.

We also consent to the incorporation by reference of such reports in the Registration Statement — Form F-9 — File No. 333-164300.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
December 3, 2010

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.



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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 3, 2010 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, 2010 and 2009 and for each of the years in the three-year period ended October 31, 2010, which were due to the adoption of new accounting standards under Canadian generally accepted accounting principles. Our report to the shareholders dated December 3, 2010 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 3, 2010

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
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 3, 2010

/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 3, 2010

/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, 2010 (the "Report") as filed with the U.S. Securities and Exchange Commission,

I, Richard E. Waugh, President and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to my knowledge:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

/s/ R. E. Waugh
Richard E. Waugh
President and Chief Executive Officer

December 3, 2010

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, 2010 (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 3, 2010

/s/ Luc A. Vanneste
Luc A. Vanneste
Executive Vice President and
Chief Financial Officer