

**SCOTIABANK (TURKS AND CAICOS)
LTD.**

**Financial Statements for the Year Ended
October 31, 2005**

Scotiabank (Turks and Caicos) Ltd.
(Incorporated under the laws of the Turks & Caicos Islands)
For the year ended October 31, 2005
(Expressed in United States Dollars)

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Independent Auditors' Report

To the Shareholder of
Scotiabank (Turks and Caicos) Ltd.

We have audited the accompanying balance sheet of Scotiabank (Turks and Caicos) Ltd. ("the Bank") as of October 31, 2005 and the related statements of operations, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as of October 31, 2005, and the results of its operations, changes in shareholder's equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

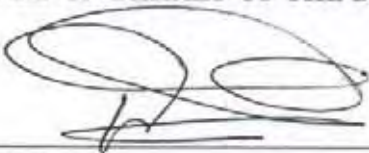
PricewaterhouseCoopers Ltd.

Chartered Accountants
December 1, 2005


Scotiabank (Turks and Caicos) Ltd.
(Incorporated under the laws of the Turks & Caicos Islands)
Balance Sheet
As of October 31, 2005
(Expressed in United States Dollars)

| | 2005 \$ | 2004 \$ |
|--|-------------|-------------|
| ASSETS | | |
| Cash and non interest bearing deposits with banks (Note 3) | 2,478,734 | 4,595,393 |
| Interest bearing deposits with banks (Note 4 & 19) | 48,381,133 | 48,090,010 |
| Loans (Notes 5 & 6) | 125,768,086 | 92,210,502 |
| Property, plant and equipment (Note 7) | 860,243 | 886,221 |
| Other assets | 707,326 | 335,282 |
| | 178,195,522 | 146,117,408 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Liabilities | | |
| Overdraft (Note 3) | 3,196,444 | - |
| Deposits (Note 8 & 19) | 154,695,884 | 128,627,132 |
| Other liabilities (Note 9) | 2,138,595 | 4,891,064 |
| | 160,030,923 | 133,518,196 |
| Shareholder's Equity | | |
| Share capital (Note 10) | 6,130,000 | 6,130,000 |
| Capital reserve (Note 11) | 3,008,650 | 1,617,303 |
| Retained earnings | 9,025,949 | 4,851,909 |
| | 18,164,599 | 12,599,212 |
| | 178,195,522 | 146,117,408 |

SIGNED ON BEHALF OF THE BOARD



Director



Director

The accompanying notes are an integral part of the financial statements

Scotiabank (Turks and Caicos) Ltd.

Statement of Operations

For the Year Ended October 31, 2005

(Expressed in United States Dollars)

| | 2005 \$ | 2004 \$ |
|--|-------------------|------------------|
| Interest Income | | |
| Loans | 8,733,109 | 6,710,227 |
| Deposits with affiliate banks | 985,455 | 501,699 |
| | <u>9,718,564</u> | <u>7,211,926</u> |
| Interest Expense | | |
| Other deposits | 986,361 | 320,156 |
| | <u>986,361</u> | <u>320,156</u> |
| Net Interest Income | 8,732,203 | 6,891,770 |
| Provision for credit losses, net of recoveries (Note 6) | (391,511) | 177,966 |
| Net Interest Income after Provision for Credit Losses | <u>8,340,692</u> | <u>7,069,736</u> |
| Fees, commission and other income (Note 12) | 2,168,207 | 1,948,141 |
| Net Interest and Other Income | <u>10,508,899</u> | <u>9,017,877</u> |
| Operating Expenses | | |
| Staff costs, including salaries | 2,300,046 | 1,893,873 |
| Premises, equipment and maintenance | 918,662 | 730,116 |
| Depreciation | 154,591 | 158,448 |
| Communications and marketing | 314,845 | 308,066 |
| Other operating expenses (Note 13) | 1,255,368 | 1,082,820 |
| | <u>4,943,512</u> | <u>4,173,323</u> |
| Net Income for the year | <u>5,565,387</u> | <u>4,844,554</u> |

The accompanying notes are an integral part of the financial statements

Scotiabank (Turks and Caicos) Ltd.

Statement of Changes in Shareholder's Equity

For the Year Ended October 31, 2005

(Expressed in United States Dollars)

| | Share Capital \$ | Capital Reserve \$ | Retained Earnings \$ | Total \$ |
|--|------------------------|--------------------------|----------------------------|-------------------|
| Balance as of November 1, 2004 | 6,130,000 | 1,617,303 | 4,851,909 | 12,599,212 |
| Net income for the year | - | - | 5,565,387 | 5,565,387 |
| Transfer from current year net income (Note 11) | - | 1,391,347 | (1,391,347) | - |
| Balance as of October 31, 2005 | 6,130,000 | 3,008,650 | 9,025,949 | 18,164,599 |

The accompanying notes are an integral part of the financial statements

Scotiabank (Turks and Caicos) Ltd.

Statement of Cash Flows

For the Year Ended October 31, 2005

(Expressed in United States Dollars)

| | 2005 | 2004 |
|---|--------------------|-------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year | 5,565,387 | 4,844,554 |
| Adjustments for: | | |
| Depreciation | 154,591 | 158,448 |
| Loss on disposal of fixed assets | - | 37,505 |
| Interest income | (9,718,564) | (7,211,926) |
| Interest expense | 986,361 | 320,156 |
| Provision for credit losses | 374,075 | (189,430) |
| Changes in operating assets and liabilities: | | |
| Increase in loans | (33,838,660) | (19,631,680) |
| Increase in other assets | (372,044) | (184,247) |
| Increase in deposits | 25,982,363 | 28,600,274 |
| (Decrease)/increase in other liabilities | (2,752,469) | 1,055,915 |
| Interest received | 9,625,565 | 7,082,518 |
| Interest paid | (899,972) | (282,184) |
| Net Cash from Operating Activities | (4,893,367) | 14,599,903 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (128,613) | (214,030) |
| Net Cash used in Investing Activities | (128,613) | (214,030) |
| NET MOVEMENT IN CASH AND CASH EQUIVALENTS | (5,021,980) | 14,385,873 |
| Cash and Cash Equivalents at Beginning of Year | 52,685,403 | 38,299,530 |
| Cash and Cash Equivalents at End of Year | 47,663,423 | 52,685,403 |
| Cash and Cash Equivalents is comprised of: | | |
| Cash and non interest bearing deposits with banks | 2,478,734 | 4,595,393 |
| Interest bearing deposits with banks | 48,381,133 | 48,090,010 |
| Overdraft | (3,196,444) | - |
| | 47,663,423 | 52,685,403 |

The accompanying notes are an integral part of the financial statements

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

1. Operations and Activities

Scotiabank (Turks and Caicos) Ltd. ("the Bank") was incorporated under the laws of The Turks & Caicos Islands on February 28, 2003, and was licensed under the Banking Ordinance of the Turks & Caicos Islands on April 1, 2003.

The Bank provides commercial and retail banking services including the acceptance of deposits, granting of loans and provision of foreign exchange services. The Bank's registered office is located on Cherokee Road, Providenciales, Turks & Caicos Islands. The number of persons employed by the Bank as of October 31, 2005 was 51 (2004: 40).

On April 3, 2003, the Bank entered into a purchase and sale agreement with The Bank of Nova Scotia (BNS) (incorporated in Toronto, Canada, and being the ultimate parent company), whereby the Bank acquired the business of The Bank of Nova Scotia in the Turks & Caicos Islands ("BNS TCI"). The Bank of Nova Scotia International Limited (incorporated in the Bahamas, and being the immediate parent company) paid a total consideration of \$6,130,000 on behalf of the Bank, and the Bank issued them with 61,300 shares in exchange for that consideration.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards. The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The significant accounting policies are:

(a) Loans

Loans are stated at their principal amount net of unearned interest and allowance for credit losses.

A loan is classified as non-accrual when in management's opinion there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If payment on a loan is contractually 90 days in arrears, the loan is classified as non-accrual unless it is fully secured and collection efforts in progress are reasonably expected to result in repayment of the loan or restoration to current status.

A loan that is contractually 180 days in arrears is classified as non-accrual in all situations. When a loan is classified as non-accrual, recognition of interest in accordance with the terms of the original loan ceases. 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.

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements
For the Year Ended October 31, 2005

2. Summary of Significant Accounting Policies (Continued)

(b) Allowance for credit losses

The Bank's management conducts on-going credit assessments of the portfolio on an account-by-account basis and establishes specific provisions. Specific provisions reflect the amounts required to reduce the carrying value of the loan to its estimated realizable amount. General provisions are also established against the loan portfolio in respect of the Bank's business lines, where a prudent estimate by the Bank of economic trends suggest that losses have occurred, but where such losses cannot be determined on an item-by-item basis. This assessment by the Bank is performed by a review of the average historic credit losses experienced by the branch operations. Charges in respect of credit losses are recorded as a component of net income in "Provision for credit losses, net of recoveries".

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is computed on the straight-line basis, at rates considered adequate to write-off the cost of depreciable fixed assets over their useful lives. The annual rates used are:

| | |
|------------------------|-----------------|
| Leasehold improvements | - Term of lease |
| Equipment | - 3 to 10 years |

(d) Income and expenditure

Income and expenditure is recognized on an accrual basis.

(e) Translation of foreign currencies

Foreign currency assets and liabilities have been translated at the mid-market rates of exchange prevailing at the balance sheet date. Revenue and expense items have been translated at the rates of exchange prevailing at the various transaction dates. The resulting exchange gains and losses are included in net income for the year.

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

2. Summary of Significant Accounting Policies (Continued)

(f) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and amounts due from affiliates and other banks.

(g) Leases

The leases entered into by the Bank are operating leases. The total payments under operating leases are charged to the statement of operations on a straight-line basis over the period of the lease.

3. Cash and non interest bearing deposits with banks

| | 2005 \$ | 2004 \$ |
|-------------------------------------|------------------|------------------|
| Cash | 1,635,739 | 2,566,599 |
| Affiliate banks | 735,101 | 622,244 |
| Other banks | 107,894 | 1,406,550 |
| | <u>2,478,734</u> | <u>4,595,393</u> |
| Overdrawn position with other banks | <u>3,196,444</u> | <u>-</u> |

4. Interest bearing deposits with bank

| | 2005 | 2004 |
|-------------------------------|-------------------|-------------------|
| 3 months or less \$ | Total \$ | Total \$ |
| Deposits with affiliate banks | 47,929,867 | 48,079,707 |
| Deposits with other banks | 451,266 | 10,303 |
| | <u>48,381,133</u> | <u>48,090,010</u> |

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

5. Loans

The following table summarizes carrying amounts of balance sheet customer loans and is based on the earlier of contractual repricing or maturity dates.

| | 2005 | | | | | 2004 | |
|-----------------------------------|----------------|--------------|---------------|-------------|--------------|------------------|-------------|
| | Within 1 Month | 1 - 3 Months | 3 - 12 Months | 1 - 5 Years | 5 - 10 Years | Outside 10 Years | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Residential mortgages | 233,060 | 1,258,809 | 6,390,474 | 33,398,139 | 1,449,598 | 6,361,688 | 49,091,768 |
| Personal loans | 3,619,586 | 622,812 | 1,791,308 | 14,879,649 | 1,097,321 | 366,080 | 22,376,756 |
| Business loans | 7,682,656 | 1,480 | 966,299 | 46,030,729 | 418,105 | - | 55,099,269 |
| | 11,535,302 | 1,883,101 | 9,148,081 | 94,308,517 | 2,965,024 | 6,727,768 | 126,567,793 |
| Less: Provision for credit losses | | | | | | | (799,707) |
| | | | | | | | 125,768,086 |
| | | | | | | | 92,210,502 |

The effective interest rate earned on the loan portfolio for the current period was 7.7% (2004: 7.8%).

Included in the business loans above are amounts totalling \$27,274,480, which are the subject of a risk participation agreement with The Bank of Nova Scotia International Limited, whereby The Bank of Nova Scotia International Limited accepts the credit risk on the loans in exchange for a portion of the loan interest received.

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Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements
For the Year Ended October 31, 2005

6. Provision for Credit Losses

| | Specific Provisions \$ |
|--|------------------------------|
| Balance as of November 1, 2004 | 425,632 |
| Other movements | (17,436) |
| Provision for credit losses charged to income | 391,511 |
| Balance as of October 31, 2005 | 799,707 |

The aggregate amount of non-performing loans on which interest was not being accrued amounted to approximately \$2,400,920 (2004: \$1,463,408).

7. Property, Plant and Equipment

| | Motor Vehicles \$ | Computer Equipment \$ | Furniture and Fittings \$ | Leasehold Improvements \$ | Total \$ |
|--|-------------------------|-----------------------------|------------------------------------|---------------------------------|------------------|
| Cost | | | | | |
| As of November 1, 2004 | 28,588 | 295,182 | 325,775 | 419,243 | 1,068,788 |
| Additions in the year | - | 98,206 | - | 30,407 | 128,613 |
| As of October 31, 2005 | 28,588 | 393,388 | 325,775 | 449,650 | 1,197,401 |
| Accumulated Depreciation | | | | | |
| As of November 1, 2004 | 18,074 | 88,147 | 36,535 | 39,811 | 182,567 |
| Charge in the year | 6,945 | 73,109 | 35,267 | 39,270 | 154,591 |
| As of October 31, 2005 | 25,019 | 161,256 | 71,802 | 79,081 | 337,158 |
| Net book value as of October 31, 2005 | 3,569 | 232,132 | 253,973 | 370,569 | 860,243 |
| October 31, 2004 | 10,514 | 207,035 | 289,240 | 379,432 | 886,221 |

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Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

8. Deposits

| | Maturity | | | 2005 | 2004 |
|---------------------------|----------------------|-----------------------|------------------------|--------------------|--------------------|
| | 1 - 30 days \$ | 30 - 90 days \$ | 90 - 360 days \$ | Total \$ | Total \$ |
| Deposits from customers | 115,628,117 | 10,163,116 | 9,018,135 | 134,809,368 | 119,986,674 |
| Deposits from affiliates | 17,179,172 | - | - | 17,179,172 | 7,309,997 |
| Deposits from other banks | 2,707,344 | - | - | 2,707,344 | 1,330,461 |
| | <u>135,514,633</u> | <u>10,163,116</u> | <u>9,018,135</u> | <u>154,695,884</u> | <u>128,627,132</u> |

The effective interest rate accrued on deposits for the current period was 0.64% (2004: 0.25%).

9. Other Liabilities

| | 2005 \$ | 2004 \$ |
|------------------------------------|------------------|------------------|
| Cheques and other items in transit | 1,504,852 | 4,495,512 |
| Other | 633,743 | 395,552 |
| | <u>2,138,595</u> | <u>4,891,064</u> |

10. Share Capital

| | 2005 \$ | 2004 \$ |
|---|------------|------------|
| Authorized: | | |
| 100,000 ordinary shares of par value \$100 each | 10,000,000 | 10,000,000 |
| Issued and fully paid | | |
| 61,300 ordinary shares of par value \$100 each | 6,130,000 | 6,130,000 |

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements
For the Year Ended October 31, 2005

11. Capital Reserve

| | 2005 \$ | 2004 \$ |
|--|------------------|------------------|
| Balance as of November 1 | 1,617,303 | - |
| Transfer relating to opening retained earnings | - | 406,164 |
| Transfer relating to current year net profit | 1,391,347 | 1,211,139 |
| Balance as of October 31 | 3,008,650 | 1,617,303 |

In accordance with the Turks & Caicos Banking Ordinance (2002), Part III, Section 8G, a licensed financial institution which accepts deposits from the general public shall maintain a reserve fund and transfer out of net profits not less than 25% of those profits into the reserve fund, until such time as this reserve fund is equal to the amount of paid up share capital.

12. Fees, Commission and Other Income

| | 2005 \$ | 2004 \$ |
|--|------------------|------------------|
| Deposits, payments and service charges | 1,833,468 | 1,660,914 |
| Credit fees | 322,342 | 282,159 |
| Other | 12,397 | 5,068 |
| | 2,168,207 | 1,948,141 |

13. Other Operating Expenses

| | 2005 \$ | 2004 \$ |
|-----------------------------|------------------|------------------|
| Legal and professional fees | 78,577 | 92,675 |
| Visa and ABM alliance fees | 251,834 | 249,914 |
| Travel and entertainment | 271,117 | 165,023 |
| Other | 653,840 | 575,208 |
| | 1,255,368 | 1,082,820 |

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

14. Lease Commitments

The Bank has obligations under long-term operating leases for buildings. Future minimum lease payments for such commitments are as follows:

| | 2005 \$ | 2004 \$ |
|----------------------------|------------------|------------------|
| 1 year or less | 238,500 | 254,303 |
| Between 1 year and 5 years | 999,000 | 981,000 |
| Over 5 years | 641,250 | 1,154,250 |
| | <u>1,878,750</u> | <u>2,389,553</u> |

15. Guarantees and Lines of Credit

In the normal course of business various credit related arrangements are entered into to meet the needs of customers and earn income. These financial instruments are subject to the Bank's standard credit policies and procedures.

As of October 31, these credit related arrangements were as follows:

| | 2005 \$ | 2004 \$ |
|----------------------------------|------------|------------|
| Guarantees and letters of credit | 703,320 | 492,477 |

16. Pension Plan

Substantially all of the Bank's employees are members of BNS' defined benefit pension plan. The plan provides pension benefits based on length of service and final earnings, with contributions being made by BNS on an ongoing basis to keep the plan fully funded. All rights and obligations of the defined benefit pension plan are borne by BNS. The last actuarial valuation of the plan was as of November 1, 2003 and based on that independent valuation, the plan is fully funded. All actuarial information relating to this scheme can be found in the consolidated financial statements of BNS.

The Bank also participates in a contributory plan established by BNS covering some employees. As of October 31, 2005, this plan is also fully funded.

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

17. Financial Instruments

Credit risk

The Bank's credit disciplines are based on a division of authority, a centralized credit review system, a committee system for dealing with all major exposures, and periodic independent reviews by BNS.

The Bank uses a risk rating system to quantify and evaluate proposed credits in order to assist officers in understanding the risks inherent in credit proposals and, if they are acceptable, to ensure appropriate returns. In this analytical process, the Bank is particularly sensitive to risks posed to credit quality by environmental exposures.

Retail credits are assessed and authorized in branches within lending criteria established by the Bank. Computer driven scoring systems ensure credit policies are applied consistently and objectively. Consumer credit portfolios are reviewed monthly using statistical techniques. Credit lines for off-balance sheet instruments such as foreign exchange contracts, letters of credit and guarantees are managed as an integral part of this same process.

Interest rate risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustment within a specified period. Exposure is generally managed locally by currency, and regularly reviewed on a consolidated basis by executive management.

Liquidity risk

Liquidity risk arises from fluctuation in cash flows. The liquidity risk management process ensures that the Bank is able to honour all of its financial commitments as they fall due. The Bank manages liquidity using policies, which include:

- measuring and forecasting cash commitments;
- building a large stable base of core deposits from retail and commercial customers;
- ensuring immediate availability of large pools of liquid assets to meet unforeseen events;
- maintaining a strong credit rating to ensure timely access to borrowing on favourable rates and terms;
- diversifying funding sources; and
- maintaining the ability to securitize the Bank's assets.

Foreign Exchange risk

The Bank is exposed to foreign exchange risk arising from currency exposures in respect to Canadian dollars and Pounds sterling. The risk is mitigated by the broad matching of foreign currency deposits made at the Bank and financial institutions and foreign currency deposits from customers of the Bank.

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

18. Fair Value of Financial Instruments

Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable willing parties who are under no compulsion to act, and is best evidenced by a quoted market price if one exists. The majority of the Bank's financial instruments are carried at historical cost, and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes.

The fair value of on-balance sheet financial instruments approximate their historical cost due to circumstances noted below:

(a) Cash and cash equivalents

The carrying amount of these financial instruments are assumed to approximate their fair values due to their short term nature.

(b) Loans

The rates of interest in the portfolio reflect market conditions and the carrying amounts, net of allowance for credit losses, approximate the fair values of the loans.

(c) Deposits

The carrying amounts of deposit liabilities payable on demand, and deposits payable after notice or on a fixed date are assumed to approximate their fair values due to their relatively short term nature.

19. Related Party Transactions

The Bank entered into the following related party transactions during the period:

- (a) Technical Services fees of \$163,343 (2004: \$145,291) were paid to BNS.
- (b) Chargeout fees of \$149,641 (2004: \$189,043) were paid to Scotiabank (Bahamas) Limited.

Both of these amounts are shown under 'Other', within Other Operating Expenses (see note 13).

As a result of the above transactions, the amount of \$25,000 (2004: \$25,000) was due to Scotiabank (Bahamas) Limited on October 31, 2005. This amount is included in Other Liabilities in the Balance Sheet.

Also, included under assets, in 'Interest bearing deposits with banks', is an amount for \$3,578,759 (2004: \$6,944,109) in relation to The Bank of Nova Scotia, Toronto, Canada.

Included under liabilities, in 'Deposits', is an amount for \$17,179,172 (2004: \$7,309,997) in relation to The Bank of Nova Scotia, Toronto, Canada.

Scotiabank (Turks and Caicos) Ltd.

Notes to the Financial Statements

For the Year Ended October 31, 2005

19. Related Party Transactions (Continued)

As part of the risk participation agreement as disclosed in Note 5, \$419,726 of interest received was payable to The Bank of Nova Scotia International Limited. During the year only \$191,614 had been paid.