

The Bank of Nova Scotia Berhad
(Company No. 308035 U)
(Incorporated in Malaysia)
and its subsidiaries

Financial Statements for the year ended
31 October 2010

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THE BANK OF NOVA SCOTIA BERHAD
(Company No. 308035 U)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company (the "Bank") for the year ended 31 October 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services, whilst the principal activities of the subsidiaries are stated in Note 10 to the financial statements.

There has been no significant change in the nature of the principal activities during the financial year.

RESULTS

The results of the Group and of the Bank for the year are:

	Group and Bank RM'000
Profit before taxation	90,681
Tax expense	<u>(23,196)</u>
Net profit for the year	<u><u>67,485</u></u>

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year.

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BAD AND DOUBTFUL DEBTS AND FINANCING

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and financing and the making of provisions for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate provisions made for doubtful debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts and financing, or the amount of the provisions for doubtful debts and financing, in the financial statements of the Group and of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, as shown in the accounting records of the Group and of the Bank, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities in the Group's and the Bank's financial statements misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (b) any contingent liabilities in respect of the Group and of the Bank that has arisen since the end of the financial year other than in the ordinary course of the banking business.

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CONTINGENT AND OTHER LIABILITIES (CONTD.)

No contingent liability or other liability of the Group and of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and of the Bank, that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors, the results of the operations of the Group and of the Bank for the financial year ended 31 October 2010 as not been substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

BUSINESS PLAN AND STRATEGY

2010 Results

The profits after taxes for the year was RM67.5 million, an increase of 24.7% over the previous year. The results mainly reflect the repositioning of the business mix where more emphasis were placed on relationship expansion at the branches and renewed focus on non funds revenue, mainly foreign exchange earnings. Impact to the profits from specific provision and general provision were negligible.

The Balance Sheet size of the Bank remained relatively unchanged with material differences being mostly in the money market activities (placements with banks) and short term funds placed with banks.

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BUSINESS PLAN AND STRATEGY (CONTD.)

Outlook for year 2011

The Malaysian economy is expected to improve in 2011 with a better outlook for its commodity prices, in particular for crude oil and palm oil. The Malaysian business outlook has also improved. The Banks' strategy continues to be focused on providing banking services to mainly the commercial and corporate sector from the 5 branches nationwide.

For 2011, there will be renewed vigor in pursuing trade finance and related businesses. Given the uncertain global economic environment, the Bank will continue to be cautious in managing its credit and operating risks.

THE BOARD OF DIRECTORS

The Board is chaired by Michele Kwok Chiu. The Directors who served since the date of the last report are:

Members	Status of Directorship
Gulam Rasool Khan bin T.M. Abdul Hameed	Non-Independent Executive Director
Dato' Kok Wee Kiat	Independent Non-Executive Director
Geh Cheng Hooi	Independent Non-Executive Director
Datuk Roger Tan Kim Hock	Independent Non-Executive Director
Michele Kwok Chiu	Non-Independent Non-Executive Director

The objective of the Board is to plan, supervise, identify/manage risks and provide direction and guidance to the management of the Group and of the Bank to successfully achieve the Group and the Bank's goal.

Broad duties and responsibilities of the Board include:

- (a) Review and adopt long term and short term strategic plans for the Group and the Bank;
- (b) Oversee the conduct of the Group and of the Bank's business to evaluate whether the business is being properly managed;
- (c) Identify and manage principal risks; and
- (d) Review the adequacy and the integrity of the Group and of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

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BOARD COMMITTEES

The Bank has received approval from Bank Negara Malaysia ("BNM") via letter dated 26 April 2010 to dispense the establishment of the Nominating Committee ("NC") and Remuneration Committee ("RC").

As the Board comprises of only 5 directors who are jointly involved and responsible for matters pertaining to nominating and remuneration, the duties and responsibilities of these committees as laid down by BNM/GP1 are assumed by the full Board.

As a wholly-owned subsidiary of the Bank's parent office; i.e. The Bank of Nova Scotia (BNS), the functions of both NC and RC are further supplemented by advice and counsel from BNS consistently. The Bank has a Technical Service Agreement with BNS, under which services are provided by BNS who has the international expertise and organizational staff support to provide these services.

ATTENDANCE

During the year the Directors attended the following number of meetings of the Board (the number of meetings held whilst they were Directors is shown in brackets):

Gulam Rasool Khan bin T.M. Abdul Hameed	6 (6)
Dato' Kok Wee Kiat	6 (6)
Geh Cheng Hooi	5 (6)
Datuk Roger Tan Kim Hock	5 (6)
Michele Kwok Chiu	5 (6)

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KEY INFORMATION AND BACKGROUND OF DIRECTORS

The Bank is led by an experienced Board from diverse backgrounds and collectively has a wide range of business and management experience, knowledge and capabilities in areas that include banking, financial services, accounting, economics and legal.

(a) Gulam Rasool Khan bin T.M. Abdul Hameed

Gulam Rasool Khan bin T.M. Abdul Hameed was appointed to the Board as a Non-Independent Executive Director on 16 July 1994. Prior to joining The Bank of Nova Scotia Berhad, he held various positions in Citibank Berhad. He holds a Bachelor of Economics (Hons) from the University of Malaya and is a qualified Associate Cost & Management Accountant from UK.

(b) Dato' Kok Wee Kiat

Dato' Kok Wee Kiat was appointed to the Board as an Independent Non-Executive Director on 22 November 1994. He has over 30 years experience of legal services with Shook Lin & Bok and Mah-Kok & Din. He was also previously a Deputy Minister of Trade & Industry. He retired from Kok & Associates in 2000. He chaired the Environmental Quality Council from 2001 to 2009. Dato' Kok graduated with a Bachelor of Law (Hons) from the University of Singapore.

(c) Geh Cheng Hooi

Geh Cheng Hooi was appointed to the Board as an Independent Non-Executive Director on 22 November 1994. He is a member of the Institute of Chartered Accountants in England and Wales and was formerly a Senior Partner of KPMG.

(d) Datuk Roger Tan Kim Hock

Datuk Roger Tan Kim Hock was appointed to the Board as an Independent Non-Executive Director on 6 December 2004. He held various senior positions in the Hong Leong Group before retiring as a Deputy Chairman from ECM Libra Sdn Bhd in 2006. He holds a LLB (2nd Upper) from the London School of Economics & Political Science.

(e) Michele Kwok Chiu

Michele Kwok Chiu was appointed to the Board as a Non-Independent Non-Executive Director on 24 July 2006. She is currently the Regional Head of Asia Pacific and Middle East Region of The Bank of Nova Scotia. She graduated with a MBA (Finance & Marketing) from the University of British Columbia and is a Certified Investment Manager from the The Canadian Securities Institute.

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AUDIT COMMITTEE

Membership and composition

The members of the Audit Committee are:-

Geh Cheng Hooi - Chairman

Dato' Kok Wee Kiat

Michele Kwok Chiu

Datuk Roger Tan Kim Hock

The Audit Committee shall be appointed by the Board of Directors of The Bank of Nova Scotia Berhad and shall consist of not less than three members, none of whom shall be full-time executives of The Bank of Nova Scotia Berhad. The majority of the Audit Committee members shall be independent non-executive directors and the Audit Committee shall elect a Chairman among them who is an independent non-executive director. Alternate directors are not allowed to be appointed as members of the Audit Committee.

Terms of Reference

The Audit Committee is authorised by the Board to review the financial conditions of The Bank of Nova Scotia Berhad, its internal controls, performance and findings of the internal auditors and to recommend appropriate action regularly, preferably not less than 4 times a year.

The primary functions of the Audit Committee are to assist the Board to:-

- (a) Ensure that the financial statements are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts. Review the balance sheet and income statement for submission to the full board of directors and ensure the prompt publication of annual financial statements;
- (b) Review internal controls, including the scope of the internal audit programme, the internal audit findings, and recommend action to be taken by management. The reports of internal auditors and Audit Committee should not be subject to the clearance of the chief executive or executive directors. The Audit Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;
- (c) Review with the external auditors, the scope of their audit plan, the system of internal accounting controls, the audit reports, the assistance given by the management and its staff to the auditors and any findings and action to be taken. The Audit Committee should also select external auditors for appointment by the board each year, and
- (d) Review any related party transactions that may arise within The Bank of Nova Scotia Berhad group.

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AUDIT COMMITTEE (CONTD.)

Number of meetings held

The Audit Committee shall meet at least once every quarter and during the financial year 2010, the committee met six (6) times and the attendance of the members are as follows (the number of meetings held whilst they were members is shown in brackets):-

Geh Cheng Hooi	5 (6)
Dato' Kok Wee Kiat	6 (6)
Michele Kwok Chiu	5 (6)
Datuk Roger Tan Kim Hock	5 (6)

RISK MANAGEMENT COMMITTEE

Membership and composition

The members of the Risk Management Committee are:-

Datuk Roger Tan Kim Hock - Chairman

Dato' Kok Wee Kiat

Geh Cheng Hooi

Terms of Reference

The primary functions of the Risk Management Committee are to assist the Board to:-

- (a) To perform such duties as may be required by Bank Negara Malaysia;
- (b) To review credit, investment and market risks. Also, as required by regulatory agencies, review, monitor and recommend to the Board for approval risk related policies, procedures and standards;
- (c) To review management's periodic reports on risk exposure, risk portfolio composition and risk management activities;
- (d) To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively; and
- (e) To ensure infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the licensed institutions' risk taking activities.

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Number of meetings held

The Risk Management Committee was set up during the financial year and the attendance of the members are as follows (the number of meetings held whilst they were members is shown in brackets):-

Geh Cheng Hooi	0 (1)
Dato' Kok Wee Kiat	1 (1)
Datuk Roger Tan Kim Hock	1 (1)

RISK MANAGEMENT

Extensive risk management procedures and policies are in place and employed by the BNS Group to efficiently manage the operational, credit, market and liquidity risks arising from commercial activities undertaken by the Bank. The risk management policies are closely adhered to and the Board has oversight of this to ensure that the operations of the Bank are conducted in a prudent manner. Detailed description of the core risks are provided in Note 32 to the financial statements.

INTERNAL AUDIT

The local internal audit function in The Bank of Nova Scotia Berhad (BNSB) reports to the Audit Committee of BNSB and is also under the supervision of The Bank of Nova Scotia, Executive Offices Audit department through an additional reporting relationship to the Regional Chief Auditor, Europe and Asia/Pacific. The local internal audit function is supported through review of the annual audit plan, review of work completed, training, as well as periodic audits carried out by the BNS Head Office audit teams which includes specialist audit staff for areas such as credit risk, market risk, regulatory compliance risk and IT audit services.

The mission of the Audit Department is to provide enterprise-wide, independent, objective assurance over the quality and effectiveness of the organisation's controls and operational and risk management processes and to provide advisory services designed to improve Scotiabank Group's operations. The Audit Department helps the Scotiabank Group accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, internal control and governance processes. The Audit Department employs a risk-based approach, driven by a systematic and comprehensive risk assessment model which is used to risk assess the audit universe, identify priority areas for audit, and establish frequency for cyclical audit projects.

The fundamental framework for the Audit Department is the COSO framework, a well-recognised risk and control framework for the evaluation of the design and operating effectiveness of internal control. The use of the COSO framework is fully integrated into the work of the Audit Department, including audit planning, the development of audit programs, and audit reporting.

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INTERNAL AUDIT (CONTD.)

The scope of work of the Audit Department is set with the objective of determining whether the Group's global network of internal control, risk management, and governance processes are adequately designed and effectively implemented by management to provide reasonable assurance that the following internal control objectives are achieved:

- (a) Efficiency and effectiveness of operations, including the safeguarding of assets;
- (b) Reliability of financial reporting; and
- (c) Compliance with laws and regulations.

The scope of work includes an assessment of whether:

- (a) Risks and controls are appropriately identified, assessed, managed and monitored across the global bank and its outsourced operations;
- (b) An effective control environment is maintained;
- (c) Information is effectively shared and issues are appropriately escalated and communicated; and
- (d) Quality and continuous improvement are fostered in the Group's control process.

The scope of the reviews is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. During the financial year, BNSB's Audit Committee carried out its duties as set out in the terms of reference. The Audit Committee has active oversight on the internal audit's independence, scope of work and resources. The Audit Committee regularly reviews the actions taken on internal control issues identified in reports prepared by Internal Audit and evaluates the effectiveness and adequacy of the Group's internal control system.

Internal audit has defined procedures to report control deficiencies or breaches noted which includes obtaining management action plans for correction. Follow-up and escalation procedures are in place for tracking all deficiencies or breaches to full resolution.

RELATED PARTY TRANSACTIONS

There are no other significant related party transactions other than as reported in Note 28.

MANAGEMENT REPORTS

The Board receives and reviews regular reports from the management on key operating statistics, regulatory and compliance matters and minutes of the Management Committee Meetings. In addition, the Board is briefed on the performance and operations of the Bank during each Board meeting.

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BANK RATINGS

The Bank has not been rated by any external agencies.

ISSUE OF SHARES AND DEBENTURES

There were no changes in the issued and paid-up capital of the Bank during the financial year. There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Bank during the financial year.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the Directors' beneficial interests in the shares of the Bank and its related corporations at year end are as follows:

	Number of shares			As at 31.10.2010
	As at 1.11.2009	Acquired	Disposed	
In The Bank of Nova Scotia, Canada				
Ordinary shares of Canadian \$1 each:				
Michele Kwok Chiu	5,820	686	-	6,506

The other Directors did not hold or deal in the shares of the Bank and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 22 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

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HOLDING COMPANY

The Directors regard The Bank of Nova Scotia, a company incorporated in Canada, as the ultimate holding company of the Bank.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....
GULAM RASOOL KHAN BIN T.M. ABDUL HAMEED

.....
DATO' KOK WEE KIAT

Kuala Lumpur
Date: 15 December 2010

THE BANK OF NOVA SCOTIA BERHAD
 (Company No. 308035 U)
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AND ITS SUBSIDIARIES

BALANCE SHEETS AS AT 31 OCTOBER 2010

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
ASSETS					
Cash and short-term funds	3	444,387	582,515	444,357	582,485
Deposits and placements with financial institutions	4	190,000	40,000	190,000	40,000
Securities available-for-sale	5	262,358	361,173	262,358	361,173
Loans and advances	6	2,917,557	2,950,143	2,917,557	2,950,143
Other assets	8	66,957	71,324	66,957	71,324
Statutory deposits with Bank Negara Malaysia	9	10,670	10,050	10,670	10,050
Investment in subsidiaries	10	-	-	30	30
Plant and equipment	11	1,900	2,446	1,900	2,446
Deferred tax assets	26	11,541	10,416	11,541	10,416
TOTAL ASSETS		3,905,370	4,028,067	3,905,370	4,028,067
LIABILITIES					
Deposits from customers	12	1,181,109	1,194,518	1,181,109	1,194,518
Deposits and placements of banks and other financial institutions	13	766,181	879,588	766,181	879,588
Bills and acceptances payable		34,300	32,745	34,300	32,745
Other liabilities	14	98,289	87,981	98,289	87,981
Amounts owing to holding company	15	1,204,885	1,282,934	1,204,885	1,282,934
Amounts owing to related company		11	11	11	11
Taxation		3,940	1,510	3,940	1,510
TOTAL LIABILITIES		3,288,715	3,479,287	3,288,715	3,479,287

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BALANCE SHEETS AS AT 31 OCTOBER 2010 (CONTD.)

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
EQUITY					
Share capital	16	122,375	122,375	122,375	122,375
Reserves	17	494,280	426,405	494,280	426,405
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK		<u>616,655</u>	<u>548,780</u>	<u>616,655</u>	<u>548,780</u>
TOTAL LIABILITIES AND EQUITY		<u>3,905,370</u>	<u>4,028,067</u>	<u>3,905,370</u>	<u>4,028,067</u>
OFF-BALANCE SHEET EXPOSURES		31 (d) <u>3,404,503</u>	<u>3,218,331</u>	<u>3,404,503</u>	<u>3,218,331</u>

The notes set out on pages 20 to 67 form an integral part of, and should be read in conjunction with, these financial statements.

THE BANK OF NOVA SCOTIA BERHAD
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INCOME STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010

		Group and Bank	
		2010	2009
	Note	RM'000	RM'000
Interest income	18	157,268	175,652
Interest expense	19	<u>(65,953)</u>	<u>(89,839)</u>
Net interest income		91,315	85,813
Other operating income	20	<u>20,711</u>	<u>18,374</u>
Net income		112,026	104,187
Other operating expenses	21	<u>(24,343)</u>	<u>(27,644)</u>
Operating profit		87,683	76,543
Allowance for losses on loans and advances	23	<u>2,998</u>	<u>(4,261)</u>
Profit before taxation		90,681	72,282
Tax expense	24	<u>(23,196)</u>	<u>(18,177)</u>
Profit for the year and attributable to equity holder of the Bank		<u>67,485</u>	<u>54,105</u>
Basic earnings per share (sen)	25	<u>55</u>	<u>44</u>

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THE BANK OF NOVA SCOTIA BERHAD
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STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2010

	← Non-distributable →				Distributable	Total RM'000
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Other Reserve RM'000	Retained Earnings RM'000	
Group and Bank						
At 1 November 2008	122,375	42,625	113,175	(940)	214,893	492,128
Net profit for the year	-	-	-	-	54,105	54,105
Unrealised net gain on revaluation of securities available- for-sale	-	-	-	3,397	-	3,397
Deferred tax on securities available-for-sale reserve (Note 26)	-	-	-	(850)	-	(850)
Total recognised income and expense for the year	-	-	-	2,547	54,105	56,652
Transfer to statutory reserve	-	-	9,200	-	(9,200)	-
At 31 October 2009	122,375	42,625	122,375	1,607	259,798	548,780

Note 17.1 Note 17.2 Note 17.3

THE BANK OF NOVA SCOTIA BERHAD

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AND ITS SUBSIDIARIES**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2010
(CONTD.)**

	← Non-distributable →				Distributable	Total RM'000
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Other Reserve RM'000	Retained Earnings RM'000	
Group and Bank						
At 1 November 2009	122,375	42,625	122,375	1,607	259,798	548,780
Net profit for the year	-	-	-	-	67,485	67,485
Unrealised net gain on revaluation of securities available-for-sale	-	-	-	520	-	520
Deferred tax on securities available-for-sale reserve (Note 26)	-	-	-	(130)	-	(130)
Total recognised income for the year	-	-	-	390	67,485	67,875
At 31 October 2010	122,375	42,625	122,375	1,997	327,283	616,655
			Note 17.1	Note 17.2	Note 17.3	

The notes set out on pages 20 to 67 form an integral part of, and should be read in conjunction with, these financial statements.

THE BANK OF NOVA SCOTIA BERHAD
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CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flows from operating activities				
Profit before taxation	90,681	72,282	90,681	72,282
Adjustments for:				
Depreciation of plant and equipment	638	816	638	816
Allowance for bad and doubtful debts and financing	8,580	17,601	8,580	17,601
Allowance for bad and doubtful debts and financing written back	(11,173)	(13,064)	(11,173)	(13,064)
Amortisation of premium less accretion of discounts	347	54	347	54
Losses/(gains) from sale of securities available-for-sale and held-for-trading	49	(1,020)	49	(1,020)
Dividend income	(71)	(113)	(71)	(113)
Unrealised gains arising from derivative trading	(2,568)	(887)	(2,568)	(887)
Unrealised revaluation gains in foreign exchange	(177)	(297)	(177)	(297)
Operating profit before working capital changes	86,306	75,372	86,306	75,372
Changes in working capital:				
Loans and advances	35,179	290,709	35,179	290,709
Other assets	4,367	118,763	4,367	118,763
Statutory deposits with Bank Negara Malaysia	(620)	41,670	(620)	41,670
Deposits from customers	(13,409)	(13,206)	(13,409)	(13,206)
Deposits and placements of banks and other financial institutions	(113,407)	(308,233)	(113,407)	(308,233)
Bills and acceptances payable	1,555	29,888	1,555	29,888
Other liabilities	10,485	(32,226)	10,485	(32,226)
Amounts owing to holding company	(78,049)	(384,213)	(78,049)	(384,213)

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CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010 (CONTD.)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flows from operating activities (contd.)				
Cash used in operations	(67,593)	(181,476)	(67,593)	(181,476)
Income taxes paid	(23,307)	(16,800)	(23,307)	(16,800)
Income taxes refund	1,288	807	1,288	807
Net cash used in operating activities	(89,612)	(197,469)	(89,612)	(197,469)
Cash flows from investing activities				
Purchase of plant and equipment	(92)	(30)	(92)	(30)
Purchase of securities available-for-sale and held-for-trading	(148,189)	(671,655)	(148,189)	(671,655)
Proceeds from disposal of securities available-for-sale and held for trading	249,696	560,869	249,696	560,869
Dividend received	69	97	69	97
Net cash generated from/(used in) investing activities	101,484	(110,719)	101,484	(110,719)
Net increase/(decrease) in cash and cash equivalents	11,872	(308,188)	11,872	(308,188)
Cash and cash equivalents at beginning of the financial year	622,515	930,703	622,485	930,673
Cash and cash equivalents at end of the financial year	634,387	622,515	634,357	622,485
Cash and cash equivalents comprise:				
Cash and short-term funds	444,387	582,515	444,357	582,485
Deposits and placements with financial institutions	190,000	40,000	190,000	40,000
	634,387	622,515	634,357	622,485

The notes set out on pages 20 to 67 form an integral part of, and should be read in conjunction with, these financial statements.

THE BANK OF NOVA SCOTIA BERHAD
 (Company No. 308035 U)
 (Incorporated in Malaysia)
AND ITS SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
 31 OCTOBER 2010**

The Bank Of Nova Scotia Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:

Registered office/ Principal place of business

Menara Boustead
 No. 69, Jalan Raja Chulan
 P.O. Box 11056
 50734 Kuala Lumpur

The consolidated financial statements of the Bank as at and for the year ended 31 October 2010 comprise the Bank and its subsidiaries (together referred to as the Group). The financial statements of the Bank as at and for the year ended 31 October 2010 do not include other entities.

The Bank is principally engaged in banking and related financial services, whilst the principal activities of the subsidiaries are stated in Note 10 to the financial statements.

The financial statements were approved by the Board of Directors on 15 December 2010.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with Financial Reporting Standards ("FRSs") as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia.

The Group and the Bank have not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2010

- FRS 4, *Insurance Contracts*
- FRS 7, *Financial Instruments: Disclosures*
- FRS 101, *Presentation of Financial Statements* (revised)
- FRS 123, *Borrowing Costs* (revised)
- FRS 139, *Financial Instruments: Recognition and Measurement*
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
- Amendments to FRS 2, *Share-based Payment: Vesting Conditions and Cancellations*
- Amendments to FRS 7, *Financial Instruments: Disclosures*
- Amendments to FRS 101, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to FRS 127, *Consolidated and Separate Financial Statements: Cost of a Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to FRS 132, *Financial Instruments: Presentation*
 - *Puttable Financial Instruments and Obligations Arising on Liquidation*
 - *Separation of Compound Instruments*

(Company No. 308035 U)

1. Basis of preparation (contd.)

(a) Statement of compliance (contd.)

- Amendments to FRS 139, *Financial Instruments: Recognition and Measurement*
 - *Reclassification of Financial Assets*
 - *Collective Assessment of Impairment for Banking Institutions*
- Improvements to FRSs (2009)
- IC Interpretation 9, *Reassessment of Embedded Derivatives*
- IC Interpretation 10, *Interim Financial Reporting and Impairment*
- IC Interpretation 11, *FRS 2 - Group and Treasury Share Transactions*
- IC Interpretation 13, *Customer Loyalty Programmes*
- IC Interpretation 14, *FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010

- Amendments to FRS 132, *Financial Instruments: Presentation - Classification of Rights Issues*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Share-based Payment*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distributions of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopter* - Additional Exemption for First-time Adopters
- Amendments to FRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
- Amendments to FRS 2, *Group Cash-settled Share Based Payment Transactions*
- Improvements to FRSs (2010)
- IC Interpretation 4, *Determining whether an Arrangement contain a Lease*
- IC Interpretation 18, *Transfer of Assets from Customers*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- IC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures* (revised)
- IC Interpretation 15, *Agreements for the Construction of Real Estate*

(Company No. 308035 U)

1. Basis of preparation (contd.)

The Group and the Bank plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 November 2010 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 January 2010, 1 March 2010 and 1 July 2010 except for FRS 4, Amendments to FRS 1, Amendments to FRS 2, Amendments to FRS 132, FRS 1 (revised), IC Interpretation 11, IC Interpretation 13, IC Interpretation 14, Amendments to FRS 5, Amendments to FRS 138, IC Interpretation 12, IC Interpretation 16 and IC Interpretation 17 as they are not applicable to the Group and the Bank.
- from the annual period beginning 1 November 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 January 2011 and 1 July 2011 except for Amendments to FRS 1, Amendments to FRS 2, IC Interpretation 4, IC Interpretation 18, IC Interpretation 19 and Amendments to IC Interpretation 4 which are not applicable to the Group and the Bank.
- from the annual period beginning 1 November 2012 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 January 2012 except for IC Interpretation 15 which is not applicable to the Group and the Bank.

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the other standards, amendments and interpretations is not expected to have any material impact on the financial statements or any material change in accounting policy.

(b) Basis of measurement

The financial statements of the Group and of the Bank have been prepared on the historical cost basis except for securities available-for-sale and derivative financial instruments as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Group and the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(Company No. 308035 U)

1. Basis of preparation (contd.)

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 5 - Assessment of impairment of assets - securities available-for-sale
- Note 6 and Note 23 - Assessment of allowance for losses on loans and advances
- Note 32 - Fair value estimation of financial assets and financial liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Group entities, unless otherwise stated.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Bank's balance sheet at cost less any impairment losses.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(a) Basis of consolidation (contd.)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Income recognition

Interest income is recognised in the income statement for all interest bearing assets on an accrual basis. Interest income includes the amortisation of premium or accretion of discount. Interest income on overdrafts, housing and term loans is accounted for on an accrual basis by reference to daily rest periods.

In line with the guidelines set by Bank Negara Malaysia and in accordance with the established practice of the Bank, where any principal or interest is in arrears for more than three months after due date for loans and overdrafts, and where the instrument is due and unpaid for three months after maturity date for trade bills, bankers' acceptances and trust receipts, or where doubt as to the recoverability of an advance exists, the interest on the entire such advance are classified as non-performing, which shall be reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans shall be recognised as income on a cash basis.

The policy on interest recognition on non-performing loans is in conformity with the revised BNM/GP8.

Interest from available-for-sale securities (including zero coupon debt instruments), calculated using the effective interest method, is recognised in the income statement.

(c) Interest expense

Interest expense on deposits and borrowings of the Group and of the Bank are recognised on an accrual basis.

(d) Recognition of fees and other income

Loan arrangement fees and commissions which are material are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(d) Recognition of fees and other income (contd.)

Dividends from securities available-for-sale are recognised when the right to receive the payment is established.

Other fees and commission on services and facilities extended to customers are recognised on inception of such transaction.

(e) Operating lease payments

Leases, where the Group and the Bank do not assume substantially all the risks and rewards of the ownership are classified as operating leases and the leased assets are not recognised on the Group and the Bank's balance sheet.

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

(f) Loans and advances

Loans and advances are carried at their outstanding unpaid principal and interest balances, net of specific and general allowances for bad and doubtful debts and financing and interest-in-suspense, if any. Allowance for bad and doubtful debts and financing are made with regard to specific risks and relate to those loans that have been individually reviewed and specifically identified as sub-standard, doubtful or bad.

The carrying amount of the Group's and the Bank's loans and advances are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the loans and advances is estimated.

A specific allowance is provided in the income statement whenever the carrying amount of the loans and advances exceeds its recoverable amount (being the present value of estimated future cash flows discounted at customer rate). The estimated future cash flows are based on projection of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the discounted realisable value of collateral, if any, when in the opinion of management, there is no prospect of recovery.

The allowance for bad and doubtful debts and financing are computed in conformity with the revised BNM/GP3. Consistent with prior year, the Group and the Bank has adopted a more stringent classification policy on non-performing loans, whereby loans are classified as non-performing and sub-standard when repayments are in arrears for more than three (3) months from the first day of default or after maturity date.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(f) Loans and advances (contd.)

A general allowance based on a percentage of the loan portfolio is also made to cover possible losses which are not specifically identified. The percentage made is in compliance with the minimum requirement of 1.5% set by Bank Negara Malaysia.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term funds and deposits and placements with financial institutions maturing within 1 and 3 months respectively, which are stated at placement value.

(h) Securities

Securities are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking and Financial Institution Act 1989, and are usually held to maturity.

The holdings of the securities portfolio of the Group and of the Bank are recognised based on the following categories and consequently their valuation methods:

(i) Held-for-trading

Securities are classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities classified as held-for-trading will be stated at fair value and any gain or loss arising from a change in the fair value will be recognised in the income statement.

(ii) Held-to-maturity

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intention and ability to hold to maturity. These investments will be measured at amortised cost using the effective interest method. A gain or loss is recognised in income statement when the securities are derecognised or impaired through the amortisation process.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(h) Securities (contd.)

(iii) Available-for-sale

Available-for-sale securities are securities that are not classified as held-for-trading or held-to-maturity investments and are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured will be stated at cost less any impairment losses. Any gain or loss arising from a change in the fair value will be recognised directly in equity through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statement.

The cumulative gains or losses arising on disposal of available-for-sale securities which were previously recognised in equity, will be transferred to the income statement upon derecognition of the securities.

(i) Repurchase agreements

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the securities are reflected as a liability on the balance sheet.

(ii) Plant and equipment

Recognition and measurement

Items of plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other income" and "other expenses" respectively in income statement.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(j) Plant and equipment (contd.)

Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of plant and equipment are recognised in the income statement as incurred.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Office equipment, furniture and fittings	2.5 years to 20 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at the balance sheet date.

(k) Impairment

An impairment loss in respect of securities available-for-sale assets is recognised in the income statement and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of securities available-for-sale has been recognised in the other comprehensive income, the cumulative in other comprehensive income is reclassified from equity and recognised to income statement.

The carrying amounts of assets except for deferred tax assets and financial assets (other than investment in subsidiaries and securities available-for-sale) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(k) Impairment (contd.)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(l) Other receivables

Other receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, other receivables are stated at cost less allowance for doubtful debts, if any.

(m) Liabilities

Deposits from customers, deposits and placements of banks and other financial institutions are stated at placement values.

Other liabilities are measured initially and subsequently at cost. Other liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(n) Bills and acceptances payable

Bills and acceptances payable represent the Group and the Bank's own bills and acceptances rediscounted and outstanding in the market. Bills and acceptances payable are stated at cost.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(o) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Group and the Bank at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(p) Derivative financial instruments

Derivatives are recognised at fair value with changes in fair value recognised in the income statement.

(i) Forward foreign exchange contracts

Forward contracts are valued at the prevailing forward rates of exchange at the balance sheet date. The resultant unrealised gains and losses are recognised in the income statement.

(ii) Interest rate swaps

The Bank acts as an intermediary with counterparties who wish to swap their interest rate obligations. The Bank also uses interest rate swaps in its trading account activities and in overall interest rate risk management.

Interest income or interest expense associated with interest rate swaps which are material and qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense.

Gains and losses on interest rate swaps that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in the net result from securities held-for-trading.

(Company No. 308035 U)

2. Significant accounting policies (contd.)

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(r) Employee benefits

Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group and the Bank have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's and the Bank's contribution to statutory pension funds are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

(Company No. 308035 U)

3. Cash and short-term funds

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	224,387	117,015	224,357	116,985
Money at call and deposit placements maturing within one month	220,000	465,500	220,000	465,500
	<u>444,387</u>	<u>582,515</u>	<u>444,357</u>	<u>582,485</u>

4. Deposits and placements with financial institutions

	Group and Bank	
	2010	2009
	RM'000	RM'000
Licensed banks	190,000	40,000

5. Securities available-for-sale

	Group and Bank	
	2010	2009
	RM'000	RM'000
Quoted money market instruments - at fair value:		
- Malaysian Government securities	166,058	196,464
- State Government guaranteed bonds	27,030	26,103
- Private debt securities	65,601	76,323
- Bankers' acceptances	-	58,576
	<u>258,689</u>	<u>357,466</u>
Quoted equity securities - at fair value:		
- Shares quoted in Malaysia	1,915	1,953
Unquoted equity securities - at cost:		
- Unquoted shares in Malaysia	1,754	1,754
	<u>262,358</u>	<u>361,173</u>

(Company No. 308035 U)

6. Loans and advances

	Group and Bank	
	2010	2009
	RM'000	RM'000
(i) By type		
Overdrafts	73,701	86,258
Term loans		
- housing loans	269,493	310,617
- syndicated term loans	354,386	343,928
- other term loans	886,674	776,934
Bills receivable	484,198	367,657
Trust receipts	3,147	3,121
Revolving credit	890,589	1,107,300
Staff loans (of which RM400,000 (2009: RM524,000) are to Directors)	6,808	7,089
Other loans	21,207	23,796
	<u>2,990,203</u>	<u>3,026,700</u>
Less: Unearned interest	(1,683)	(544)
Gross loans and advances	2,988,520	3,026,156
Less: Allowance for bad and doubtful debts and financing:		
- General (Note 7(ii))	(44,456)	(44,935)
- Specific (Note 7(ii))	(26,507)	(31,078)
Net loans and advances	<u>2,917,557</u>	<u>2,950,143</u>
(ii) By type of customer		
Domestic non-bank financial institutions		
- Others	630,524	516,617
Domestic business enterprises		
- Small medium enterprises	95,177	70,059
- Others	1,599,596	1,776,166
Government and statutory bodies	124,480	136,580
Individuals	375,057	437,144
Foreign entities	163,686	89,590
Gross loans and advances	<u>2,988,520</u>	<u>3,026,156</u>

(Company No. 308035 U)

6. Loans and advances (contd.)

	Group and Bank	
	2010	2009
	RM'000	RM'000
(iii) By interest rate sensitivity		
Fixed rate:		
- Housing loans	6,399	6,585
- Other fixed rate loans	151,700	105,563
Variable rate:		
- Base Lending Rate plus	1,453,610	1,313,263
- Cost plus	1,376,811	1,600,745
Gross loans and advances	2,988,520	3,026,156
(iv) By sector		
Agriculture	153,581	88,936
Manufacturing	555,894	576,355
Electricity, gas and water	-	68,290
Construction	115,038	106,546
Real estate	158,371	166,869
Purchase of landed property:		
- Residential	294,593	336,532
- Non-residential	76,272	64,334
Wholesale & retail trade and restaurants & hotels	266,912	259,505
Transport, storage and communication	200,233	200,000
Finance, insurance and business services	904,084	893,867
Purchase of securities	21,002	21,010
Purchase of transport vehicles	325	370
Consumption credit	61,328	81,474
Government of Malaysia	124,480	136,580
Others	56,407	25,488
Gross loans and advances	2,988,520	3,026,156

(Company No. 308035 U)

7. Non-performing loans (NPL)

	Group and Bank	
	2010 RM'000	2009 RM'000
(i) Movements in non-performing loans and advances		
At beginning of financial year	44,892	63,480
Classified as non-performing during the financial year	13,728	19,048
Reclassified as performing during the financial year	(6,947)	(7,674)
Amount written back in respect of recoveries	(7,275)	(15,577)
Amount written off	(2,457)	(14,385)
At end of financial year	41,941	44,892
Specific allowance	(26,507)	(31,078)
Net non-performing loans and advances	15,434	13,814
Ratio of net non-performing loans and advances to net loans and advances (net of specific allowance)	0.5%	0.5%
(ii) Movements in allowance for bad and doubtful debts and financing		
General allowance		
At beginning of financial year	44,935	49,455
Allowance made during the financial year	6,084	5,656
Allowance written back	(6,563)	(10,176)
At end of financial year	44,456	44,935
As % of gross loans and advances (net of specific allowance)	1.5%	1.5%
Specific allowance		
At beginning of financial year	31,078	36,406
Allowance made during the financial year	2,496	11,945
Allowance written back in respect of recoveries	(4,610)	(2,888)
Allowance written off	(2,457)	(14,385)
At end of financial year	26,507	31,078

(Company No. 308035 U)

7. Non-performing loans (NPL) (contd.)

	Group and Bank	
	2010	2009
	RM'000	RM'000
(iii) By sector		
Agriculture	-	57
Manufacturing	12,899	14,118
Purchase of landed property:		
- Residential	18,944	21,302
- Non-residential	329	59
Wholesale & retail trade and restaurants & hotels	6,707	6,707
Consumption credit	2,775	2,161
Others	287	428
	<u>41,941</u>	<u>44,892</u>

8. Other assets

	Group and Bank	
	2010	2009
	RM'000	RM'000
Derivatives (Note 33)	2,361	16,652
Interest receivable	19,919	16,643
Other receivables, deposits and prepayments	44,677	38,029
	<u>66,957</u>	<u>71,324</u>

9. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994), the amounts of which are determined as set percentages of total eligible liabilities.

10. Investment in subsidiaries

	Bank	
	2010	2009
	RM'000	RM'000
Unquoted shares, at cost	<u>30</u>	<u>30</u>

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10. Investment in subsidiaries (contd.)

The subsidiaries of the Bank are as follows:

Subsidiaries	Principal activities	Country of incorporation	Effective ownership interest	
			2010	2009
Scotia Nominees (M) Sdn. Bhd.	Nominee services	Malaysia	100%	100%
Scotia Nominees (Asing) Sdn. Bhd.	Nominee services	Malaysia	100%	100%
Scotia Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100%	100%

All income and expenditure arising from the operations of the subsidiaries have been taken up in the financial statements of the Bank.

11. Plant and equipment

Group and Bank	Office equipment, furniture and fittings	Motor vehicles	Total
	RM'000	RM'000	RM'000
<i>Cost</i>			
At 1 November 2008	11,476	162	11,638
Additions	30	-	30
Write off	(438)	-	(438)
At 31 October 2009 / 1 November 2009	11,068	162	11,230
Additions	92	-	92
Write off	(12)	-	(12)
At 31 October 2010	11,148	162	11,310
<i>Depreciation</i>			
At 1 November 2008	8,308	98	8,406
Charge for the year	784	32	816
Write off	(438)	-	(438)
At 31 October 2009 / 1 November 2009	8,654	130	8,784
Charge for the year	606	32	638
Write off	(12)	-	(12)
At 31 October 2010	9,248	162	9,410

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11. Plant and equipment (contd.)

Group and Bank	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
<i>Carrying amounts</i>			
At 1 November 2008	3,162	64	3,232
At 31 October 2009 / 1 November 2009	2,414	32	2,446
At 31 October 2010	1,900	-	1,900

12. Deposits from customers

		Group and Bank	
		2010	2009
		RM'000	RM'000
(i) By type of deposit			
	Demand deposits	128,554	133,930
	Savings deposits	6,742	6,465
	Fixed/Investment deposits	804,160	773,657
	Others	241,653	280,466
		<u>1,181,109</u>	<u>1,194,518</u>
(ii) By type of customer			
	Business enterprises	1,075,900	1,080,495
	Individuals	104,223	113,011
	Others	986	1,012
		<u>1,181,109</u>	<u>1,194,518</u>

13. Deposits and placements of banks and other financial institutions

		Group and Bank	
		2010	2009
		RM'000	RM'000
	Licensed banks	254,000	495,322
	Licensed investment banks	20,000	20,000
	Other financial institutions	492,181	364,266
		<u>766,181</u>	<u>879,588</u>

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14. Other liabilities

	Group and Bank	
	2010	2009
	RM'000	RM'000
Derivatives (Note 33)	51,849	50,824
Interest payable	11,500	8,232
Other payables and accruals	34,940	28,925
	<u>98,289</u>	<u>87,981</u>

15. Amounts owing to holding company

The amounts owing to holding company are subject to the normal trade terms.

The Directors regard The Bank of Nova Scotia, a company incorporated in Canada, as the ultimate holding company of the Bank.

16. Share capital

	Number of ordinary shares of RM1 each		Amount	
	Group and Bank		Group and Bank	
	2010	2009	2010	2009
	'000	'000	RM'000	RM'000
Authorised:				
At 1 November / 31 October	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
At 1 November / 31 October	<u>122,375</u>	<u>122,375</u>	<u>122,375</u>	<u>122,375</u>

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17. Reserves**17.1 Statutory Reserve**

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

17.2 Other Reserve

The other reserve is in respect of unrealised fair value gains and losses on securities available-for-sale.

17.3 Retained Earnings

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt account to frank the payment of dividends out of all its retained earnings as at 31 October 2010.

The Finance Act 2007 introduced a single tier company tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 October 2010 will be available to the Bank until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

18. Interest income

	Group and Bank	
	2010	2009
	RM'000	RM'000
Loans and advances:		
- Interest income other than recoveries from NPL	139,041	147,253
- Recoveries from NPLs	816	1,316
Money at call and deposit placement with financial institutions	25,613	23,262
Securities available-for-sale	12,714	12,024
Arbitrage interest	(20,138)	(6,407)
Others	6,322	7,335
	<u>164,368</u>	<u>184,783</u>
Amortisation of premium less accretion of discount	(347)	(54)
Net interest suspended	<u>(6,753)</u>	<u>(9,077)</u>
Total interest income	<u>157,268</u>	<u>175,652</u>

19. Interest expense

	Group and Bank	
	2010	2009
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	27,276	54,157
Deposits from customers	28,219	25,258
Others	10,458	10,424
	<u>65,953</u>	<u>89,839</u>

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20. Other operating income

	Group and Bank	
	2010	2009
	RM'000	RM'000
Fee income:		
- Commission	1,600	1,499
- Service charges and fees	7,922	4,142
- Guarantee fees	1,076	1,237
(Losses)/gains arising from sale of securities:		
- Held-for-trading	-	37
- Available-for-sale	(49)	983
Gains arising from dealing in foreign currency	7,346	9,179
Unrealised revaluation gains in foreign exchange	177	297
Dividend income:		
- Securities available-for-sale	71	113
Unrealised gains arising from derivative trading	2,563	887
	<u>20,711</u>	<u>18,374</u>

21. Other operating expenses

	Group and Bank	
	2010	2009
	RM'000	RM'000
Personnel costs:		
- Salaries and bonuses	10,634	11,024
- Pension fund contributions	1,814	1,832
- Other staff costs	1,665	3,016
Marketing expenses:		
- Advertising and promotion	171	400
- Others	436	471
Establishment costs:		
- Depreciation of plant and equipment	638	816
- Rental	2,198	2,063
- Others	2,464	2,629
Administrative expenses:		
- Fees	2,832	3,770
- Others	1,491	1,623
	<u>24,343</u>	<u>27,644</u>

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21. Other operating expenses (contd.)

	Group and Bank	
	2010	2009
	RM'000	RM'000
The above expenditure includes the following statutory disclosures:		
Directors' remuneration, excluding benefits-in-kind (Note 22)	877	861
Rental of premises	2,094	1,958
Hire of equipment	104	105
Auditors' remuneration		
- current year	143	129
- under provision in prior years	8	20
	<u>8</u>	<u>20</u>

The key management personnel compensation is as follows:

Key management personnel:		
- Short-term employee benefits	937	2,350
- Post-employment benefits	104	99
	<u>104</u>	<u>99</u>

Key management personnel comprises persons other than the Directors of the Group and of the Bank, having authority and responsibility for planning, directing and controlling the activities of the Group and of the Bank either directly or indirectly.

22. Directors' remuneration

Aggregate remuneration of all Directors during the year are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Executive Director		
- remuneration	862	853
Non-Executive Directors		
- fees	106	105
	<u>106</u>	<u>105</u>
	<u>968</u>	<u>958</u>

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22. Directors' remuneration (contd.)

Number of Directors of the Bank whose remuneration for the financial year fall in the following bands are as follows:

	Group and Bank	
	2010	2009
Executive Director: RM800,000 to RM900,000	<u>1</u>	<u>1</u>
Non-executive Directors: Not exceeding RM50,000	<u>4</u>	<u>4</u>

23. Allowance for losses on loans and advances

	Group and Bank	
	2010	2009
	RM'000	RM'000
Allowance for bad and doubtful debts and financing on loans and advances:-		
(a) Specific allowance:		
- made in the financial year	2,496	11,945
- written back in respect of recoveries	(4,610)	(2,888)
(b) General allowance:		
- made in the financial year	6,084	5,656
- written back	(6,563)	(10,176)
Bad debts on loans and advances:		
- Recovered	<u>(405)</u>	<u>(276)</u>
	<u>(2,998)</u>	<u>4,261</u>

24. Tax expense

	Group and Bank	
	2010	2009
	RM'000	RM'000
Income tax expense		
- current year	23,890	17,047
- under provision in prior years	561	-
	<u>24,451</u>	<u>17,047</u>
Deferred tax expense (Note 26)		
- origination and reversal of temporary differences	(632)	1,214
- over provision in prior years	<u>(623)</u>	<u>(84)</u>
	<u>(1,255)</u>	<u>1,130</u>
	<u>23,196</u>	<u>18,177</u>

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24. Tax expense (contd.)

	Group and Bank	
	2010	2009
	RM'000	RM'000
Reconciliation of effective tax expense		
Profit before taxation	90,681	72,282
Income tax using Malaysian tax rates @ 25%	22,670	18,071
Non-deductible expenses	76	67
Other items	512	123
	23,258	18,261
Over provision in prior years	(62)	(84)
Tax expense	23,196	18,177

25. Basic earnings per share

The basic earnings per ordinary share have been calculated based on the profit attributable to equity holder and the number of ordinary shares outstanding during the year.

	Group and Bank	
	2010	2009
	RM'000	RM'000
Number of ordinary shares in issue ('000)	122,375	122,375
Profit attributable to equity holder (RM'000)	67,485	54,105
Basic earnings per share (sen)	55	44

26. Deferred tax assets

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Plant and equipment	81	281
Others	(1,175)	-
General allowance for bad and doubtful debts and financing	(11,114)	(11,234)
	(12,208)	(10,953)
Revaluation of securities available-for-sale	667	537
	(11,541)	(10,416)

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26. Deferred tax assets (contd.)

Movements in temporary differences during the financial year are as follows:

	Plant and equipment RM'000	General allowance for bad and doubtful debts RM'000	Others RM'000	Other reserve RM'000	Total RM'000
Deferred tax (assets)/ liabilities					
At 1 November 2008	281	(12,364)	-	(313)	(12,396)
Recognised in income statement (Note 24)	-	1,130	-	-	1,130
Recognised in equity	-	-	-	850	850
At 31 October /1 November 2009	281	(11,234)	-	537	(10,416)
Recognised in income statement (Note 24)	(200)	120	(1,175)	-	(1,255)
Recognised in equity	-	-	-	130	130
At 31 October 2010	81	(11,114)	(1,175)	667	(11,541)

27. Credit exposures to connected parties

The credit exposures of the Group and the Bank to connected parties, as defined by Bank Negara Malaysia's "Guidelines on Credit Transactions and Exposures with Connected Parties" are as follows:-

	Group and Bank	
	2010	2009
	RM'000	RM'000
Aggregate value of outstanding credit exposures to connected parties	3,767	3,937
As a percentage of total credit exposures	0.07%	0.08%

There are no outstanding credit exposures to connected parties which is non-performing or in default.

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28. Significant related party transactions and balances

	Group and Bank	
	2010	2009
	RM'000	RM'000
Expenditure:		
<i> Holding company</i>		
Technical fees	1,411	1,818
Computer license agreement	656	650
Technical support	370	280
<i> Holding company</i>		
Interest payable on loans	6,292	27,167
Income:		
<i> Holding company</i>		
Interest receivable on deposits	(4,729)	(2,853)
Balances with holding company and related companies:		
<i> Amount due from holding company</i>		
Current accounts	5,223	21,291
Deposits	122,906	201,114
<i> Amount due to holding company</i>		
Current accounts	(12)	(15)
Loans	(1,333,002)	(1,505,324)
<i> Amount due to related company</i>		
Current accounts	(11)	(11)

The related party transactions are conducted at arm's length basis and on normal commercial terms which are not more favourable than those generally available to public.

29. Commitments and contingencies***Market risk***

Market risk is the potential change in value caused by movement in the market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions.

As at 31 October 2010, the amount of contracts which were not hedged and hence exposed to market risk was RM1.82 million (2009: RM11.07 million).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 October 2010, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM2.36 million (2009: RM16.65 million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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30. Lease commitments

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term lease commitments is as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Within one year	2,234	2,263
After one year but not more than five years	2,075	4,183
	<u>4,309</u>	<u>6,446</u>

31. Capital adequacy

(a) The capital adequacy ratios of the Group and of the Bank are analysed as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Tier 1 capital		
Paid-up share capital	122,375	122,375
Share premium	42,625	42,625
Retained profit	327,283	259,798
Reserves	122,375	122,375
	<u>614,658</u>	<u>547,173</u>
Less: Deferred tax assets	(12,208)	(10,953)
Total Tier 1 capital	<u>602,450</u>	<u>536,220</u>
Tier 2 capital		
General allowance for bad and doubtful debts and financing, representing total Tier 2 capital	44,456	44,935
Total capital	646,906	581,155
Less: Investment in subsidiaries	(30)	(30)
Capital base	<u>646,876</u>	<u>581,125</u>
Core capital ratio	18.72%	16.57%
Risk-weighted capital ratio	20.10%	17.96%

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	Group and Bank			
	2010		2009	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	4,410,276	3,031,243	4,450,224	3,066,863
Total RWA for market risk	-	1,818	-	11,072
Total RWA for operational risk	-	185,856	-	157,313
	<u>4,410,276</u>	<u>3,218,917</u>	<u>4,450,224</u>	<u>3,235,248</u>

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31. Capital adequacy (contd.)

With effect from 1 January 2008, the capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia's revised Risk Weighted Capital Adequacy Framework (RWCAF-Basel II). The Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The detailed disclosures on the risk weighted assets, as set out in Notes 31(b), (c), (d) and (e) are presented in accordance with para 4.3 of Bank Negara Malaysia's Guideline - Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3), whereby such disclosures are effective for annual financial reports for the annual reporting period beginning on or after 1 January 2008.

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31. Capital adequacy (contd.)

(b) The breakdown of risk weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows:

Item	Group and Bank 31 October 2010 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
1	<u>Credit risk</u> <i>On-balance sheet exposures:</i> Sovereigns/central banks Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs") Corporates Residential mortgages Other assets	478,212 518,600 2,739,752 259,310 69,849	478,212 518,600 2,739,752 259,310 69,849	- 162,907 2,374,700 192,811 67,028	- 13,033 189,976 15,425 5,362
	Total on-balance sheet exposures	4,065,723	4,065,723	2,797,446	223,796
	<i>Off-balance sheet exposures:</i> Credit-related off-balance sheet exposures OTC derivatives	317,993 26,560	317,993 26,560	224,134 9,663	17,931 773
	Total off-balance sheet exposures (Note 31(d))	344,553	344,553	233,797	18,704
2	Total on and off-balance sheet exposures Large exposures risk requirement	4,410,276	4,410,276	3,031,243	242,500
3	<u>Market risk</u> Foreign currency risk				
			Long Position 1,475		
			Short Position (1,818)	1,818	145
4	Operational risk			185,856	14,868
5	Total RWA and capital requirements			3,218,917	257,513

The Group and the Bank do not have any issuance of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent.

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31. Capital adequacy (contd.)

(b) The breakdown of risk weighted assets ("RWA") by exposures in each major risk category for the previous financial year are as follows:

Item	Group and Bank 31 October 2009 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
1	<u>Credit risk</u> <i>On-balance sheet exposures:</i> Sovereigns/central banks Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs") Corporates Residential mortgages Other assets	524,643 600,721 2,786,200 296,533 60,757	524,643 600,721 2,786,200 296,533 60,757	- 179,312 2,462,690 218,360 57,632	- 14,345 197,015 17,469 4,611
	Total on-balance sheet exposures	4,268,854	4,268,854	2,917,994	233,440
	<u>Off-balance sheet exposures:</u> Credit-related off-balance sheet exposures OTC derivatives	137,383 43,987	137,383 43,987	135,395 13,474	10,832 1,078
	Total off-balance sheet exposures (Note 31(d))	181,370	181,370	148,869	11,910
2	Total on and off-balance sheet exposures Large exposures risk requirement	4,450,224	4,450,224	3,066,863	245,350
3	<u>Market risk</u> Foreign currency risk				
		Long Position 11,072	Short Position -	11,072	886
4	Operational risk			157,313	12,585
5	Total RWA and capital requirements			3,235,248	258,821

The Group and the Bank do not have any issuance of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent.

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31. Capital adequacy (contd.)

(c) The breakdown of credit risk exposures by risk weights for the current financial year are as follows:

Group and Bank 31 October 2010 Risk Weights	Exposures after Netting and Credit Risk Mitigation				Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Residential Mortgages RM'000		
0%	478,212	-	109,095	-	588,887	-
20%	-	353,908	270,626	-	626,085	125,217
50%	-	356,409	92,738	31,011	480,158	240,079
75%	-	-	-	217,772	217,772	163,329
100%	-	9,304	2,407,157	3,708	2,486,887	2,486,887
150%	-	1,218	2,370	6,899	10,487	15,731
Total Exposures Risk-Weighted Assets by Exposures	478,212	720,839	2,881,986	259,390	4,410,276	3,031,243
Average Risk Weight Deduction from Capital Base	-	260,117 36.1%	2,511,206 87.1%	192,891 74.4%	3,031,243 68.7%	-

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31. Capital adequacy (contd.)

(c) The breakdown of credit risk exposures by risk weights for the previous financial year are as follows:

Group and Bank 31 October 2009 Risk Weights	Exposures after Netting and Credit Risk Mitigation				Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Residential Mortgages RM'000		
0%	524,643	-	137,402	-	663,929	-
20%	-	573,419	207,168	-	782,138	156,428
50%	-	20,896	52,778	35,602	109,276	54,638
75%	-	-	-	251,668	251,668	188,751
100%	-	366	2,533,555	4,304	2,595,547	2,595,547
150%	-	41,686	891	5,089	47,666	71,499
Total Exposures	524,643	636,367	2,931,794	296,663	4,450,224	3,066,863
Risk-Weighted Assets by Exposures	-	188,027	2,602,714	218,490	3,066,863	-
Average Risk Weight	0.0%	29.5%	88.8%	73.6%	68.9%	-
Deduction from Capital Base	-	-	-	-	-	-

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31. Capital adequacy (contd.)

(d) The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows:

Group and Bank 31 October 2010	Principal Amount RM'000	Positive Fair Value of Derivate Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	34,307		34,307	34,307
Transaction-related contingent items	407,707		203,854	110,356
Short term self liquidating trade-related contingencies	17,380		3,476	3,115
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	10,772		5,386	5,386
- not exceeding one year	354,848		70,970	70,970
Unutilised uncommitted credit lines	757,915		-	-
	1,582,929		317,993	224,134
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- less than one year	1,696,574	2,361	23,348	8,057
Interest rate related contracts:				
- less than one year	5,000	-	12	6
- one year to less than five years	120,000	-	3,200	1,600
	1,821,574	2,361	26,560	9,663
Total	3,404,503	2,361	344,553	233,797

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31. Capital adequacy (contd.)

(d) The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows (contd.):

	Principal Amount RM'000	Positive Fair Value of Derivate Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Group and Bank 31 October 2009				
<u>Credit-related exposures</u>				
Direct credit substitutes	38,371		38,371	38,371
Transaction-related contingent items	66,448		33,224	31,984
Short term self liquidating trade-related contingencies	10,848		2,170	1,422
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	58,570		29,285	29,285
- not exceeding one year	171,667		34,333	34,333
Unutilised uncommitted credit lines	526,892		-	-
	872,796		137,383	135,395
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- less than one year	2,109,170	16,652	39,259	11,110
Interest rate related contracts:				
- less than one year	111,365	-	278	139
- one year to less than five years	125,000	-	4,450	2,225
	2,345,535	16,652	43,987	13,474
Total	3,218,331	16,652	181,370	148,869

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31. Capital adequacy (contd.)

(e) The risk weighted assets and capital requirements for the various categories of risk under market risk of the Group and the Bank are as follows:

	31 October 2010		31 October 2009	
	Risk Weighted Assets RM'000	Capital Requirements RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
Group and Bank				
Foreign exchange risk	1,818	145	11,072	886
Total	1,818	145	11,072	886

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32. Financial Instruments

The guidelines and policies adopted by the Group and by the Bank to manage the following risks that arise in the conduct of the business activities are as follows:

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events. Operational risk is inherent in each of the Bank's business and key support activities and can manifest itself in various ways. These include breakdowns, error, business interruptions and inappropriate behaviour of employees, and can potentially result in financial losses and other damage to the Group and the Bank.

Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risks have been developed as an important part of our risk management culture. They include established policies and procedures, internal controls and procedures as well as maintaining back-up procedures for key activities, undertaking contingency planning, regular organisational review and through enforcement of the Bank's Guidelines for Business Conduct. These are supported by an independent review by Internal Audit.

Credit Risk

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

Policies for managing credit risk are determined by the Group Risk Management. Specific procedures for managing credit risk are determined at the business levels with specific policies and procedures being adopted to different risk environment and business goals including an internal grading system. Credit analysis includes review of facility details, financial and risk analysis.

Market Risk

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates, market prices and volatilities that arise from the Group and the Bank's funding, investment and trading activities.

Market risk arising from trading activities is controlled by marking-to-market the trading positions against their predetermined market risk limits.

(i) Foreign Currency Exchange Risk

Foreign currency exchange risk refers to adverse exchange rate movements on foreign currency positions taken from time to time. Open positions in foreign currency transactions are monitored against predetermined position limits and cut-loss limits.

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32. Financial Instruments (contd.)

Market Risk (contd.)

(ii) Interest Rate Risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate exposures in individual currencies are controlled by gap limits. The potential reduction in net interest income from an unfavourable interest rate movement of +/- 50 basis points is prepared and reviewed every fortnightly.

The effect of interest rate changes on the market value of investments are monitored closely and mark-to-market valuations are regularly reported to management.

Liquidity Risk

Liquidity refers to the ability to meet financial obligations and to fund the growth of assets. Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as and when they fall due.

Liquidity risk is monitored through the Bank Negara Malaysia's New Liquidity Framework and managed by the Asset and Liability Committee (ALCO).

In addition, a comprehensive Contingency Liquidity Funding Plan is also established to ensure that alternative funding strategies are in place and can be implemented on a timely manner to minimise liquidity risk that may arise due to unforeseen adverse changes in the market place.

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32. Financial Instruments (contd.)

Interest rate risk

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

Group 2010	Non-trading book				Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000					
Assets									
Cash and short-term funds	440,000	-	-	-	-	4,387	-	444,387	2.45
Deposits and placements with banks and other financial institutions	-	190,000	-	-	-	-	-	190,000	2.91
Securities:									
- available-for-sale	36,194	-	40,227	182,268	-	3,669	-	262,358	5.11
Loans and advances:									
- performing	821,765	1,627,353	302,269	145,001	5,708	17	-	2,902,123	4.77
- non-performing	-	-	-	-	-	15,434	-	15,434	-
Others	-	-	-	-	-	91,068	-	91,068	-
Total assets	1,297,959	1,817,353	342,496	327,269	5,718	114,585	-	3,905,370	
Liabilities									
Deposits from customers	978,607	117,225	85,261	16	-	-	-	1,181,109	3.26
Deposits and placements of banks and other financial institutions	476,790	171,004	82,887	35,500	-	-	-	766,181	3.02
Bills and acceptances payable	-	15,304	18,996	-	-	-	-	34,300	2.73
Others	509,216	349,650	368,772	-	-	79,487	-	1,307,125	0.31
Total liabilities	1,964,613	653,183	555,916	35,516	-	79,487	-	3,288,715	

(Company No. 308035 U)

32. Financial Instruments (contd.)

Interest rate risk (contd.)

Group 2010	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000			
Equity	-	-	-	-	-	-	616,655	616,655
Total liabilities and equity	1,964,613	653,183	555,916	35,516	-	-	696,142	3,905,370
On-balance sheet interest sensitivity gap	(666,654)	1,164,170	(213,420)	291,753	5,708	-	(581,557)	-
Off-balance sheet interest sensitivity gap	7,268	(136,057)	(383)	120,000	-	-	(890,092)	-
Total interest sensitivity gap	(659,386)	1,028,113	(213,803)	411,753	5,708	-	(1,471,649)	-

(Company No. 308035 U)

32. Financial Instruments (contd.)

Interest rate risk (contd.)

Bank 2010	Non-trading book				Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	Over 5 years RM'000				
Assets								
Cash and short-term funds	440,000	-	-	-	4,357	-	444,357	2.45
Deposits and placements with banks and other financial institutions	-	190,000	-	-	-	-	190,000	2.91
Securities: - available-for-sale	36,194	-	40,227	182,268	3,669	-	262,358	5.11
Loans and advances - performing	821,765	1,627,353	302,269	145,001	27	-	2,902,123	4.77
- non-performing	-	-	-	-	15,434	-	15,434	-
Others	-	-	-	-	91,098	-	91,098	-
Total assets	1,297,959	1,817,353	342,496	377,269	114,585	-	3,905,370	
Liabilities								
Deposits from customers and other financial institutions	978,607	117,225	85,261	16	-	-	1,181,109	3.26
Bills and acceptances payable	476,790	171,004	82,887	35,500	-	-	766,181	3.02
Others	509,216	349,650	368,772	-	79,487	-	1,307,125	2.73
Total liabilities	1,964,613	653,183	555,916	35,516	79,487	-	3,288,715	0.31

(Company No. 308035 U)

32. Financial Instruments (contd.)

Interest rate risk (contd.)

Bank 2010	Non-trading book				Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000			
Equity	-	-	-	-	-	616,655	616,655
Total liabilities and equity	1,964,613	653,183	555,916	35,516	-	696,142	3,905,370
On-balance sheet interest sensitivity gap	(666,654)	1,164,170	(213,420)	291,753	5,708	(581,557)	-
Off-balance sheet interest sensitivity gap	7,268	(136,057)	(383)	120,000	-	(890,092)	-
Total interest sensitivity gap	(659,386)	1,028,113	(213,803)	411,753	5,708	(1,471,649)	-

(Company No. 308035 U)

32. Financial Instruments (contd.)

Interest rate risk (contd.)

Group 2009	Non-trading book				Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000			
Assets							
Cash and short-term funds	465,500	-	-	-	-	582,515	1.68
Deposits and placements with banks and other financial institutions	-	40,000	-	-	-	40,000	2.17
Securities:							
- available-for-sale	48,708	9,869	40,067	258,822	-	361,173	4.46
Loans and advances:							
- performing	953,722	1,576,559	343,284	53,086	-	2,936,329	4.17
- non-performing	-	-	-	-	-	13,814	-
Others	-	-	-	-	-	94,236	-
Total assets	1,467,930	1,626,428	383,351	311,908	5,738	4,028,067	
Liabilities							
Deposits from customers	958,925	146,373	88,302	918	-	1,194,518	2.70
Deposits and placements of banks and other financial institutions	482,309	320,604	6,853	61,500	-	879,588	2.38
Bills and acceptances payable	6,450	13,698	12,597	-	-	32,745	2.30
Others	595,095	575,024	149,578	-	-	1,372,436	0.94
Total liabilities	2,042,779	1,055,699	257,330	62,418	-	3,479,287	

(Company No. 308035 U)

32. Financial Instruments (contd.)

Interest rate risk (contd.)

Group 2009	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000			
Equity	-	-	-	-	-	-	548,780	-
Total liabilities and equity	2,042,779	1,055,699	257,330	62,418	-	-	609,841	4,028,067
On-balance sheet interest sensitivity gap	(574,849)	570,729	126,021	249,490	5,738	-	(377,129)	-
Off-balance sheet interest sensitivity gap	(9,725)	(248,599)	108,904	125,000	-	-	(872,795)	-
Total interest sensitivity gap	(584,574)	322,130	234,925	374,490	5,738	-	(1,249,924)	-

(Company No. 308035 U)

32. Financial Instruments (contd.)

Interest rate risk (contd.)

Bank 2009	Non-trading book				Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	Over 5 years RM'000				
Assets								
Cash and short-term funds	465,500	-	-	-	116,985	-	582,485	1.68
Deposits and placements with banks and other financial institutions	-	40,000	-	-	-	-	40,000	2.17
Securities:								
- available-for-sale	48,708	9,869	40,067	258,822	3,707	-	361,173	4.46
Loans and advances:								
- performing	953,772	1,576,559	343,284	53,086	3,940	-	2,936,329	4.17
- non-performing	-	-	-	-	13,814	-	13,814	-
Others	-	-	-	-	94,266	-	94,266	-
Total assets	1,467,930	1,626,428	383,351	311,908	232,712	-	4,028,067	
Liabilities								
Deposits from customers	958,925	146,373	88,302	918	-	-	1,194,518	2.70
Deposits and placements of banks and other financial institutions	482,309	320,604	6,853	61,500	8,322	-	879,588	2.38
Bills and acceptances payable	6,450	13,698	12,597	-	-	-	32,745	2.30
Others	595,095	575,024	149,578	-	52,739	-	1,372,436	0.94
Total liabilities	2,042,779	1,055,699	257,330	62,418	61,061	-	3,479,287	

(Company No. 308035 U)

32. Financial Instruments (contd.)

Interest rate risk (contd.)

Bank 2009	Non-trading book				Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000				
Equity	-	-	-	-	548,780	-	548,780	-
Total liabilities and equity	2,042,779	1,055,699	257,330	62,418	609,841	-	4,028,067	
On-balance sheet interest sensitivity gap	(574,849)	570,729	126,021	249,490	5,738	-	(377,129)	
Off-balance sheet interest sensitivity gap	(9,725)	(248,599)	108,904	125,000	-	-	(872,795)	
Total interest sensitivity gap	(584,574)	322,130	234,925	374,490	5,738	-	(1,249,924)	

(Company No. 308035 U)

32. Financial Instruments (contd.)**Fair values*****Recognised financial instruments***

In respect of cash and short-term funds, deposits and placements with financial institutions, statutory deposits with Bank Negara Malaysia, other assets, bills and acceptances payable, amount owing to holding and related companies and other liabilities, the carrying amounts approximate fair values due to the relatively short term nature of these financial instruments.

The fair values are estimated based on quoted or observable market prices as at the balance sheet date. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for similar instruments as at balance sheet date.

The estimated fair values of the other financial assets and financial liabilities carried on the balance sheet as at 31 October 2010 are shown below:

Group and Bank	2010 Carrying Value RM'000	2010 Fair Value RM'000	2009 Carrying Value RM'000	2009 Fair Value RM'000
Financial assets				
Securities available-for-sale	262,358	262,358	361,173	361,173
Loans and advances	2,917,557	2,902,975	2,950,143	2,945,136
Financial liabilities				
Deposits from customers	1,181,109	1,181,109	1,194,518	1,194,494
Deposits and placements of banks and other financial institutions	766,181	764,130	879,588	876,556

The fair value of the financial instruments listed above has been determined by discounting the relevant cash flows using current interest rates for similar instruments at the balance sheet date.

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33. Derivative financial instruments

	Group and Bank	
	Assets	Liabilities
	RM'000	RM'000
At 31 October 2010		
<i>Derivatives held-for-trading</i>		
Foreign exchange derivatives	2,361	55,888
Interest rate swaps	-	5,961
	<u>2,361</u>	<u>61,849</u>
Total recognised derivative assets/liabilities	<u>2,361</u>	<u>61,849</u>
At 31 October 2009		
<i>Derivatives held-for-trading</i>		
Foreign exchange derivatives	16,652	43,464
Interest rate swaps	-	7,360
	<u>16,652</u>	<u>50,824</u>
Total recognised derivative assets/liabilities	<u>16,652</u>	<u>50,824</u>

THE BANK OF NOVA SCOTIA BERHAD
(Company No. 308035 U)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 169 (15) OF THE COMPANIES ACT, 1965**

In the opinion of the Directors, the financial statements set out on pages 13 to 67 are drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 October 2010 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....
GULAM RASOOL KHAN BIN T.M. ABDUL HAMEED

.....
DATO' KOK WEE KIAT

Kuala Lumpur
Date: 15 December 2010

THE BANK OF NOVA SCOTIA BERHAD
(Company No. 308035 U)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

**STATUTORY DECLARATION PURSUANT TO
SECTION 169 (16) OF THE COMPANIES ACT, 1965**

I, **Gulam Rasool Khan bin T.M. Abdul Hameed**, the Director primarily responsible for the financial management of The Bank of Nova Scotia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 13 to 67 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur in the Federal Territory on 15 December 2010.

.....
GULAM RASOOL KHAN BIN T.M. ABDUL HAMEED

Before me:

Commissioner for Oaths
Kuala Lumpur

Independent Auditors' Report to the Member Of The Bank of Nova Scotia Berhad

(Company No. 308035 U)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of The Bank of Nova Scotia Berhad, which comprise the balance sheets as at 31 October 2010 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 67.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Company No. 308035 U)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 October 2010 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Ow Peng Li
Partner
Approval Number: 2666/09/11 (J)

Petaling Jaya, Malaysia

Date: 15 December 2010