THE BANK OF NOVA SCOTIA
(Panama Branch)

Financial Statements

October 31, 2008

(With Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

THE BANK OF NOVA SCOTIA
(Panama Branch)

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE BANK OF NOVA SCOTIA

We have audited the accompanying financial statements of The Bank of Nova Scotia (Panama Branch) (hereinafter "the Branch") , which comprise the balance sheet as at October 31, 2008, and the statements of income, changes in capital funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as modified by prudential regulations enacted by the Superintendence of Bank of Panama for supervisory purpose. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 the 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Bank of Nova Scotia (Panama Branch) as of October 31, 2008, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, as modified by prudential regulations enacted by the Superintendence of Banks of Panama for supervisory purpose, as described in note 2 (a) to the financial statements.

Emphasis of Matter

As mentioned in notes 1, 5 and 11 of the financial statements, the Panama Branch of The Bank of Nova Scotia depends significantly on its Head Office.

KPMG (SIGNED)

February 11, 2009
Panama, Republic of Panama

THE BANK OF NOVA SCOTIA

(Panama Branch)

Balance Sheet

October 31, 2008

(Stated in Balboas)

Assets	Note	2008	2007
Cash and cash items		1,292,991	1,463,976
Due from banks:	6		
Demand deposits with local banks		24,765,324	4,669,515
Time deposits with local banks		1,805,000	1,372,000
Time deposits with foreign banks	5	45,000,000	45,000,000
Total due from banks		71,570,324	51,041,515
Total cash, cash items and due from banks		72,863,315	52,505,491
Securities available for sale	7	1,176,665	1,852,518
Securities held to maturity	7	2,100,000	7,617,800
Loans:	5, 8		
Local		926,265,056	555,509,099
Foreign		31,558,185	26,247,154
		957,823,241	581,756,253
Less:			
Unearned interest and commission		2,721,222	386,434
Allowance for loan losses		65,033	12,277
Loans, net		955,036,986	581,357,542
Premises, furniture, equipment and improvements, net	9	7,924,459	5,169,616
Other assets:			
Accrued interest receivable on:			
Loans		3,361,568	1,931,597
Time deposits	5	0	35,550
Investment securities		55,339	90,195
Accounts receivable from related parties	5	6,042,327	11,495,504
Various debtors		849,225	259,666
Customers' liabilities under acceptances		4,477,415	5,630,919
Deferred income tax	14	38,263	3,683
Derivative financial instruments	16	6,286,765	0
Other	10	254,474	334,691
Total other assets		21,365,376	19,781,805
Total assets		1,060,466,801	668,284,772

The balance sheet should be read together with the accompanying notes that are an integral part of the financial statements.

Liabilities and Capital Funds	Note	2008	2007
Deposits:	5		
Demand deposits:			
Local		53,040,593	18,264,775
Foreign		6,019,668	3,782,040
Time deposits:			
Local		204,846,525	276,810,678
Foreign		6,050,468	4,503,346
Head Office and affiliates		658,723,803	229,474,258
Savings:			
Local		59,105,849	20,028,957
Foreign		6,325,744	722,779
Total deposits		994,112,650	553,586,833
Overdraft with Head Office	5, 11	30,853,963	88,702,365
Other liabilities:			
Drafts, certified and managers' checks		4,714,480	2,769,512
Accrued interest payable	5	4,780,296	3,682,124
Acceptances outstanding		4,477,415	5,630,919
Derivatives financial instrument	16	6,286,765	0
Other		5,223,568	3,719,502
Total other liabilities		25,482,524	15,802,057
Total liabilities		1,050,449,137	658,091,255
Capital funds:			
Assigned capital from Head Office	17	10,000,000	10,000,000
Unrealized (loss) gain on securities	7	(482,336)	193,517
Retained earnings		500,000	0
Total capital funds		10,017,664	10,193,517
Commitments and contingencies	5, 13		
Total liabilities and capital funds		1,060,466,801	668,284,772

THE BANK OF NOVA SCOTIA
(Panama Branch)

Statement of Income

Year ended October 31, 2008

(Stated in Balboas)

	Note	2008	2007
Interest and commission income:	5		
Interest earned on:			
Loans		43,397,457	37,701,833
Deposits with banks		1,853,049	933,376
Investment securities		468,403	853,691
Commissions on loans		1,611,297	621,133
Total interest and commission income		47,330,206	40,110,033
Interest expense	5	27,390,052	28,156,529
Net interest and commission income		19,940,154	11,953,504
Provision for loan losses	8	(52,756)	(12,277)
Net interest and commission income, after provision		19,887,398	11,941,227
Other income:			
Letter of credit commission		933,038	1,047,140
Collection commission		43,508	27,458
Wire transfers comission		335,814	258,106
Other		122,935	70,253
Total other income		1,435,295	1,402,957
Operating expenses:			
Salaries and other personnel expenses	5, 12	5,675,722	3,783,064
Professional services		391,545	282,073
Advertising		407,522	234,421
Travel expenses		217,171	148,090
Communication and postage		416,275	165,265
Other taxes		420,361	393,743
Depreciation and amortization	9	512,390	430,118
Rent	13	808,086	529,967
Head Office charges		2,000,726	573,793
Other	12	2,364,684	1,155,999
Total operating expenses		13,214,482	7,696,533
Net income before income tax		8,108,211	5,647,651
Income tax	14	3,348,997	1,414,377
Net income		4,759,214	4,233,274

The statement of income should be read together with the accompanying notes that are an integral part of the financial statements.

THE BANK OF NOVA SCOTIA
(Panama Branch)

Statement of Changes in Capital Funds

Year ended October 31, 2008

(Stated in Balboas)

	Note	Assigned capital	Unrealized gain (loss) on securities	Retained earnings	Total capital funds
Balance at October 31, 2006		10,000,000	272,378	127,239	10,399,617
Unrealized loss on securities available for sale	7	0	(78,861)	0	(78,861)
Loss recognized directly in equity		0	(78,861)	0	(78,861)
Net income - 2007		0	0	4,233,274	4,233,274
Total income (loss) recognized in the period		0	(78,861)	4,233,274	4,154,413
Transfer to Head Office		0	0	(4,360,513)	(4,360,513)
Balance at October 31, 2007		10,000,000	193,517	0	10,193,517
Unrealized loss on securities available for sale	7	0	(675,853)	0	(675,853)
Loss recognized directly in equity		0	(675,853)	0	(675,853)
Net income - 2008		0	0	4,759,214	4,759,214
Total income (loss) recognized in the period		0	(675,853)	4,759,214	4,083,361
Net transfer to Head Office		0	0	(4,259,214)	(4,259,214)
Balance at October 31, 2008		10,000,000	(482,336)	500,000	10,017,664

The statement of changes in capital funds should be read together with the accompanying notes that are an integral part of the financial statements.

THE BANK OF NOVA SCOTIA
(Panama Branch)

Statement of Cash Flows

Year ended October 31, 2008

(Stated in Balboas)

	2008	2007
Operating activities:		
Net income	4,759,214	4,233,274
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	52,756	12,277
Depreciation and amortization	512,390	430,118
Deferred income tax	(34,580)	(3,683)
Interest and commission income	(45,718,909)	(39,488,900)
Interest expense	27,390,052	28,156,529
Income tax expense	3,383,577	1,418,060
Changes in operating assets and liabilities		
Loans	(373,732,200)	(73,497,401)
Other assets	6,097,339	574,564
Demand and savings deposits	81,693,303	11,715,816
Time deposits	358,832,514	151,448,553
Other liabilities	(482,846)	1,442,070
Cash generated from the operations		
Interest received	44,359,344	39,394,742
Interest paid	(26,291,880)	(26,250,864)
Income tax paid	(605,201)	(1,699,755)
Cash flows from operating activities	80,214,873	97,885,400
Investing activities:		
Acquisition of securities	0	(7,670,400)
Proceeds from redemption of securities	5,517,800	7,062,587
Acquisition of furniture and equipment	(3,267,233)	(3,062,991)
Cash flows from investing activities	2,250,567	(3,670,804)
Financing activities:		
Overdraft with Head Office	(57,848,402)	(46,272,590)
Transfer of earnings to Head Office	(4,259,214)	(4,360,513)
Cash flows from financing activities	(62,107,616)	(50,633,103)
Net increase in cash and cash equivalents	20,357,824	43,581,493
Cash and cash equivalents at beginning of year	52,505,491	8,923,998
Cash and cash equivalents at end of year	72,863,315	52,505,491

The statement of cash flows should be read together with the accompanying notes that are an integral part of the financial statements.

(1) Operations

The Bank of Nova Scotia (Panama Branch), hereinafter referred to as "the Branch", started operations in the Republic of Panama on November 15, 1974, operating under a general banking license granted by the Superintendence of Banks of Panama, which allows banks incorporated in accordance with foreign legislation to engage in banking business, both within and outside Panama.

The Branch directly provides a wide variety of financial services to entities and natural persons, in Panama and abroad.

The Branch has significant transactions with related entities, which are substantially under the direction and authorization of its Head Office in Canada.

The Branch is located in Ave. Federico Boyd and 51st Street, Panama City.

Banks authorized to operate in Panama are regulated and supervised by the Superintendence of Banks of the Republic of Panama, in accordance with legislation established by Law Decree No. 9 of February 26, 1998 modified by Law Decree No.2 of February 22, 2008 and its regulations.

The Branch's Management authorized the issuance of these financial statements on February 11, 2009.

(2) Summary of the Most Significant Accounting Policies

(a) Statement of Compliance

The financial statements of the Branch have been prepared in accordance with International Financial reporting Standards (IFRS), as modified by prudential regulations enacted by the Superintendence of Banks of Panama for supervisory purposes. The Superintendence of Banks has regulated that the annual financial statements prepared and filed to this regulatory entity, must include all the allowances for losses on financial assets, as required by the prudential rules enacted by the Superintendence of Banks. The accounting treatment for recognition of loan losses in conformity with the prudential rules enacted by the Superintendence differs in some respects with the accounting treatment in conformity with International Financial reporting Standards (IFRS), specifically IAS 39. (See Note 2(e) Investment Securities and Note 2(g) Allowance for loan Losses).

The accounting policies have been applied consistently for all periods presented in theses financial statements. The Branch adopted IFRS 7 – "Financial Instruments: Disclosures" and a complementary amendment to IAS 1 – "Presentation of Financial Statements: Capital Disclosures" (effective since January 1, 2007).

(b) Basis of Preparation

The financial statements are prepared on a historical cost basis, except for available for sale securities which are carried at fair value. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

(2) Summary of the Most Significant Accounting Policies, continued

The preparation of financial statements requires management to make certain critical accounting estimates and assumptions, and to exercise judgment in the process of applying the Branch accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. The estimates and related assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from theses estimates. The current economic environment has increased the inherent degree of uncertainty in these estimates and assumptions.

The adopted estimates and assumptions made by management that are particularly susceptible to significant changes in the future, relate to the determination of the allowance for loan losses, the securities valuation reserve, and the allowance for off-balance sheet credit risks.

The Branch uses the settlement date method to record its financial instruments.

The financial statements are stated in Balboas (B/.), the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States of America dollar (US$). The Republic of Panama does not issue paper currency, and in lieu the United States of America dollar (US$) is used as legal tender.

(c) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Balboas (B/.) at the foreign exchange rate ruling at that date, except for transactions with previously agreed exchange rates. Foreign currency transactions during the period are translated at the foreign exchange rate ruling at the date of the transaction. Income or loss from foreign exchange differences are recognized in the other income or other expense accounts, respectively, in the statement of income.

(d) Derivative Financial Instruments

The Branch utilizes derivative financial instruments as part of its operations, which are recognized in the balance sheet at their fair value, under the fair value method or the cash flow method when hedge accounting is used. When the derivative does not qualify for hedge accounting, the instrument is classified as asset or liability at fair value through profit and loss.

Derivative instruments that are not linked to a hedge strategy are classified as assets or liabilities at fair value and are recorded in the balance sheet at their fair value. Changes in valuation of these derivative instruments are accounted for in the statement of income.

(2) Summary of the Most Significant Accounting Policies, continued

(e) Investment Securities

The investment securities are classified at the time of their acquisition based on management's ability and intention to sell or to hold them until their maturity date. The classifications used by Branch are as follows:

- *Securities Available for Sale*

  This category includes the securities acquired with the intention of holding them for an undetermined period of time, waiting to be sold in response to the need of liquidity or changes in the interest rate, exchange rate or equity price. These securities are measured at their fair value and changes in fair value are recognized in capital funds accounts until the securities are sold or redeemed or it has been determined that a security has been impaired in value; in this case, a cumulative gains or losses previously recognized in capital funds is included in the statement of income. Changes from foreign currency fluctuation in securities available for sale are recognized through profit and loss.

  In the event that investments in equity instruments are classified as available for sale, a significant and prolonged decrease in the fair value under their cost is considered to be an indicator that assets are impaired. In case of investments in equity instruments where the determination of their fair value is not reliable, the same are held at cost less the allowance for impairment loss.

- *Securities Held to Maturity*

  Securities held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that management of the Branch has the positive intent and the ability to hold them until maturity.

  Securities held to maturity owned by the Branch consist in debt instruments, which are carried at amortized cost under the effective interest method.

  The Branch determines the impairment of securities held to maturity based on Agreement 7-2000, enacted by the Superintendence of Banks of Panama. Under certain criteria and elements defined in such Agreement 7-2000, a reserve for temporary losses in investments on securities held to maturity must be constituted. In addition, Agreement 7-2000 mandates the establishment of special reserves when:

  - The issuer of the securities undergoes a noticeable and recurrent impairment in its economic solvency or there is a high probability of bankruptcy.

  - More than ninety days has passed since the total or partial maturity of the principal, interest or both, taking into account the amount that can be reasonably deemed to be of difficult recovery, net of guarantees or depending on the time passed since the maturity, as follows: more than 90 days up to 180 days, 25%; more than 180 days up to 270 days, 50%; more than 270 days up to 360 days, 75%; and more than 360 days, 100%.

(2) Summary of the Most Significant Accounting Policies, continued

- The investments securities do not have reliable prices and are not quoted in an active organized market.

- An important impairment occurs in the exchange risk, or a significant impairment of the country risk, or investments in banking markets that lack prudential regulation in accordance with international standards and that had not properly covered.

The estimated impairment losses are recognized against results of operations and the accrued reserve is presented in the balance sheet deducted from investments on securities held to maturity. Whenever an investment security is written off, the charged-off amount is charged to the reserve account.

The fair value of an investment security is generally determined based on the quoted market price as of the balance sheet date. If a quoted market price is not available, the fair value of the instrument is estimated by using price calculation models or discounted cash flow techniques.

Purchases of investment securities are recognized at the settlement date, which is the date when an asset is delivered to or by an entity.

(f) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that are originated generally when providing money to a debtor. Loans granted are reported at their principal amounts outstanding, net of unearned interest and commission, less the allowance for loan losses. Interest on loans is calculated based on the principal amount outstanding and the agreed interest rates, and is recorded as income over the life of the loan under the accrual method.

The unearned interests and commissions are recognized as income during the life of the loans under the effective interest method.

Corporate financing through the issuance of private bonds that the Branch has originated and has the intention to hold in it's portfolio, are presented in the balance sheet as part of it's loan portfolio.

Restructured loans consist of financial assets which original terms and conditions, such as interest rate, monthly installments or guarantees, have been modified due to difficulties of repayment by the debtor.

The Branch has a policy of not accruing interest on loans which principal or interest is in arrears for more than ninety days, unless in management's opinion, based on the assessment of the financial condition of the borrower, collaterals or other factors, the total repayment of capital and interests is probable. Whenever a loan is transferred to non-accrual status, the accrued interests receivable as of that date are reversed from interest income from loans. This policy follows Agreement 6-2000 "Classification of Portfolio and Constitution of Reserves" enacted by the Superintendence of Banks of Panama.

(2) Summary of the Most Significant Accounting Policies, continued

(g) Allowance for Loan Losses

The Branch uses the allowance method in providing for loan losses over loans that are considered individually impaired. The amount of loan losses determined during the period is recognized as provision expense in the income statement and credited to an account of allowance for loan losses.

The allowance is presented in the balance sheet deducted from loans receivable. Whenever a loan is determined to be non-recoverable, the non-recoverable amount is charged to the allowance account. Recoveries of loans previously charged off as non-recoverable, are credited to the allowance account.

The Superintendence of Banks of Panama mandates that the financial information presented by banks in Panama, including annual and intermediate financial statements, include the accounting recognition and presentation of allowances for loan losses, based on prudential rules for the constitution of such reserves, enacted by this regulatory entity. Based on the regulator's provisions, Agreement 6-2000, enacted by the Superintendence of Banks of Panama, the Bank classifies loans into five risk categories and determines the minimum amounts of allowances of loan losses on the principal's balance, as follows: Standard 0%; Special mention 2%; Substandard 15%; Doubtful 50%; Non-recoverable 100%. For that matter, criteria such as the quality of the loan and parameters of noncompliance with the repayment of the debt, among others, are used for the classification. The criterion on periods of non-compliance is used mostly to classify consumer and housing loans, but it is also considered in the classification of corporate loans.

In addition, in a term not greater than 90 days, the Bank must adjust the previous classification of loans and constitute new specific provisions, if applicable, based on the estimated losses, as follow: Special mention 2% to 14.9%, Substandard 15% to 49.9%, Doubtful 50% to 99.9%, Non-recoverable 100%.

To calculate the estimated losses, the Branch considers, among others, the financial statements of the debtor, operative cash flows, realization value of the collaterals, and any other flow that it may obtain from co-debtors or guarantors. For the consumer portfolio, consideration is given to debtor's delinquency, the losses that the Branch has historically experienced in the past in comparable or similar groups, the portfolio's maturity profile, and any other information that may affect the collection of the consumer portfolio.

Futhermore, Agreement 6-2000 allows banks to create generic reserves for loan losses, on a provisional basis, whenever it is learned about impairment in the value of a group of loans with commonly defined characteristics and that could not be attributed to individual loans.

(2) Summary of the Most Significant Accounting Policies, continued

In the case of branches of Foreign Banks operating under a general license, Agreement 6-2000 allows the accreditation before the Superintendence of Banks of Panama of the allowance for loan losses of the Panama Branch by its Head Office, by means of a certification issued by the external auditors of such Head Office and/or it's respective Regulatory Entity. These allowances accredited before the regulator are not recorded in the balance sheet of the Panama Branch.

The Superintendence of Banks may assess the sufficiency of the reserve and may order the Branch to constitute additional reserves at any time.

Allowances for loan losses determined based on prudential rules enacted by the regulator (Agreement 6-2000), may differ from the amount of reserves determined under International Accounting Standard No.39, Financial Instruments: Recognition and Measurement (IAS 39). The reserve estimate under IAS 39 is based on the concept of incurred impairment losses on loans receivable and uses two methodologies to asses if there is objective evidence of impairment: individually for loans that are individually significant and individually or collectively for loans that are not individually significant.

According to IAS 39, impairment losses on corporate loans individually assessed are determined based on an assessment of the exposures on a case-by-case basis. If it is determined that there is no objective evidence of impairment of an individually significant loan, this is included in a group of loans with similar characteristics and is assessed collectively for impairment. The impairment loss is calculated comparing the current value of the expected future cash flows, discounted at the original effective rate of the loan, against its current carrying value.

Under IAS 39, for the purposes of a collective evaluation of impairment, consumer loans are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimate of the future cash flows for groups of such assets. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group, the historical loss experience for assets with similar credit risk characteristics to those in the group and Management's experienced judgment as to whether the current economy and credit conditions are such that the actual level of inherent losses is likely to be greater or less than the suggested historical experience.

The amount of any estimated loss for loan impairment is charged as a provision for losses in the statement of income and is credited to a reserve account. Loans charged off are recorded in the account of allowance for loan losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by reducing the loan impairment allowance account. The amount of any reversal is recognized in the statement of income.

(2) Summary of the Most Significant Accounting Policies, continued

(h) Premises, Furniture, Equipment and Improvements

Premises, furniture, equipment and improvements are stated at cost, net of accumulated depreciation and amortization. Improvements are capitalized while minor repairs and maintenance which do not extend the useful life or improve the asset are charged directly to expense when incurred.

Depreciation and amortization are charged to current operations on a straight-line basis, based on the estimated useful lives of the respective assets, except for land and projects in process, which are not depreciated. The annual percentage of depreciation estimated for these assets is summarized as follows:

Premises	2.5%
Improvements	10.0%
Furniture and equipment	15.0%
Vehicle	15.0%

These percentages are reviewed and adjusted if appropriate, at each balance sheet date.

(i) Financial Guarantees

Issued Financial Guarantees are contracts that require the Branch to make specific payments on behalf of its customers to reimburse the holder of the guarantee for a loss in case the client fails to make a payment when due in accordance with the terms and conditions of the contract.

(j) Reserve for Risks on Contingent Credits

The Branch uses the allowance method to provide for possible losses on contingencies of a credit nature, based in the Agreement 6-2002. The allowance is increased based on a provision charged to expenses in the statement of income and is decreased by charge-offs due to losses related on these contingencies.

(k) Interest Income and Expense

Interest income and expense are generally recognized in the statement of income for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the remaining period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, financial liability. When calculating the effective interest rate, the Branch estimates cash flow considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts. Transactions costs are origination costs, directly attributable to the acquisitions, issuance or disposition of an asset or liability.

(2) Summary of the Most Significant Accounting Policies, continued

(l) Commission, Transfers and Other Income

Generally, the commissions on letters of credit and other banking services are recognized as income on a cash basis due to their short-term nature. The income recognized on a cash basis is not significantly different from the income under the accrual method. Commissions are included as commission income in the statement of income.

(m) Impairment of Asset

The carrying amounts of the Branch assets are reviewed at the balance sheet date to determine if there is evidence of impairment. If such evidence exists, the asset's recoverable amount is estimated. An impairment loss is recognized between the difference of the asset's net carrying amount and the recoverable amount. The loss due to the impairment of assets is recognized as an expense in the statement of income.

(n) Income Tax

Current income tax is the estimated tax payable on the taxable income for the year, using prevailing tax rates at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The deferred income tax represents the amount of taxes payable and/or receivable in future years, as a result of temporary differences between the financial balances of assets and liabilities in the balance sheet and its tax base, using taxable rates at the balance sheet date. These temporary differences are expected to be reversed in futures periods. Deferred tax assets or liabilities are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents comprise time deposits due from banks, with original maturities of three months or less.

(p) Uniformity on the Presentation of the Financial Statements

The above mentioned accounting policies have been applied consistently in the periods presented in the financial statements, and have been applied consistently by the Branch.

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 financial statements presentation.

(l) New Standards and Interpretations Not Adopted

As of the balance sheet date, there are new standards, amendments and interpretations to standards, which are not effective for the period ended October 31, 2008, and therefore have not been applied in the preparation of these financial statements:

- IFRS 8 “Operating Segments” (Effective January 1, 2009)
- IAS 23 (Revised) “Borrowing Costs” (Effective January 1, 2009)
- IAS 1 (Revised) “Presentation of Financial Statements (2007)” (Effective January 1, 2009)
- Amendments to IAS 32 “Financial Instruments Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable Financial Instruments and Obligations Arising on Liquidation”. (Effective January 1, 2009)
- IFRS 3 (Revised) “Business Combinations (2008)” (Effective July 1, 2009)

(2) Summary of the Most Significant Accounting Policies, continued

- IAS 27 (Amended) "Consolidated and Separate Financial Statements" (Effective July 1, 2009)
- Amendments to IFRS 2 "Share – based Payment – Vesting Conditions and Cancellations". (Effective January 1, 2009)
- IAS 39 – Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement. (Effective July 1, 2009)

(3) Risk Management of Financial Instruments

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. The Branch activities are mainly related to the use of financial instruments and, as such, the balance sheet is primarily composed of financial instruments.

These instruments expose the Branch to various types of risks. The Bank of Nova Scotia's Head Office has approved a Risk Management Policy which: identifies each significant risk the Branch is exposed to; creates a Market Risk Management and Policy Committee composed of key executives that engage in prudentially monitoring, controlling and managing those risks; and establishes limits for each one of those risks.

Additionally, the Bank is subject to the regulations issued by the Superintendence of Banks of the Republic of Panama, concerning to concentrations of interest rate risk, market, liquidity and capitalization, among others.

The management is monitoring the impact that the world financial crisis may have on the economy in Panama and other countries where the Bank performs its operations, including the possible effect on the financial assets, financial liabilities, results of operations and liquidity of the Bank. Due to the world uncertainty about when this crisis will be stabilized or resolved, management can not foresee it's final effect in the future results of operations.

Main types of risks identified by the Branch are credit, liquidity, market and operational risk, which are described as follows:

(a) Credit Risk

It is the risk that the debtor, issuer or counterpart of a financial asset, owned by the Branch, does not fully and timely comply, with any payment due to the Branch in conformity with the terms and conditions agreed when the asset was acquired or originated by the Branch.

Market Risk Management and Policy Committee evaluates and previously approves each commitment that involves a credit risk for the Branch, and periodically monitors the financial condition of the respective debtors or issuers.

(3) Risk Management of Financial Instruments, continued

The Branch has established some procedures to manage the credit risk, summarized as follows:

- *Formulation of Credit Policies*: Subjects of credit are those clients that comply with the requirements established by management. At all time, obtaining the largest possible coverage must be an endeavor, but in no case lower than 100% of the obligation. Any exceptions should be authorized by the Head Office through its Credit Committee.

- *Structure of Authorization for Approval and Renewal of Credit Facilities:* The Head Office has established local approval limits with respect to the granting and renewal of credit facilities at the level of Branch Managers, Commercial Credit Managers and General Management. Those credit facilities for amounts higher than the local approval limits require the authorization of Market Risk Management and Policy Committee.

- *Concentration and Exposure Limits:* The Head Office, through the Market Risk Management and Policy Committee establishes the limits of concentration and exposition of maximum risk by industry and debtor, including credits to related parties and each of the Bank's branches.

- *Development and Maintenance of Risk Assessment:* Verification is made to ensure that the operation complies with the policies established for documentation, evaluation, guaranties and disbursement approval. The ranking of loans is revised in accordance with the classification of the banking provision and the existence of the provisions established is verified.

- *Review of Compliance with Policies:* The Branch generates reports in order to keep informed the Head Office, the local General Management, the Superintendence of Banks of the Republic of Panama and other branch departments related to Risk Management monitoring.

(3) Risk Management of Financial Instruments, continued

The following table analyzes the Branch's financial instruments that are exposed to the credit risk and their corresponding assessment:

	Loans	
	2008	**2007**
Carrying value, net of provision	957,758,208	581,743,976
Individual impairment:		
Sub-normal	4,771,128	0
Doubtful	1,073,223	327,622
Gross amount	5,844,351	327,622
Impairment provision	(65,033)	(12,277)
Carrying value, net	5,779,318	315,345
Past due but not impaired		
Special mention	8,513,814	396,039
Carrying Value	8,513,814	396,039
Neither past due nor impaired		
Normal	943,465,076	581,032,592
Carrying value	943,465,076	581,032,592

As of October 31, 2008, time deposits with banks and investments securities are classified within a low credit risk level (normal).

Factors of major risk exposure and information on the impaired assets and the premises used for these disclosures are the following:

- Impairment of loans and deposits with banks:
  Impairment of loans and deposits with banks is determined by considering the amount of principal and interest, in accordance with the contractual maturity of the loans and deposits with banks. These loans are assessed in a classification from sub-normal to doubtful, which is the credit risk assessment system of the Branch.

- Past due but not impaired loans and investments securities:
  Loans and investment securities in which contractual interest or principal payments are past due but the Branch believes that impairment is not appropriate on the basis of the level of collateral available, and the stage of collection amount owed to the Branch. Generally, the loans in this condition are classified as special mention.

- Renegotiated loans:
  Renegotiated loans are those that have been restructured due to impairment in the financial condition of the debtor, and where the Branch is considering to grant some changes in the credit parameters originally agreed. Once these loans are restructured, they are held in this category independently of any improvements in the condition of the debtor after the restructuring by the Branch.

(3) Risk Management of Financial Instruments, continued

- Impairment reserves:
  The Branch has established impairment reserves as provided by Agreement 6-2000, which states that the Branch should perform an estimate of its losses considering the source of payment and the pledged credit guarantees.

- Charge-off policy:
  The Branch determines to charge off a group of loans that demonstrate non-recoverability. This determination is made after performing an analysis of the financial conditions made since a payment of an obligation has not been made, and when it is determined that the collateral is not enough for the complete payment of the credit granted. For loans of lower amounts, charge-offs are generally based on the expired time of the credit granted.

The Branch holds collaterals on loans granted to clients corresponding to deposits and other guarantees of this asset. Estimates of fair value are based on the collateral value considered according to the credit time period and generally are not updated, unless the credit is individually impaired.

The estimate fair value of the guarantees on these loans, are detailed as follows:

	2008	**2007**
Against individually impaired:		
Mortgage guarantee on real estate	443,006	1,126,848
Mortgage guarantee other than real state	955,721	0
Other	26,782	0
Against past due but not impaired:		
Mortgage guarantee on real estate	10,046,890	124,979
Mortgage guarantee other than real state	530,673	0
Deposits in the bank itself	763,301	0
Against neither past due nor impaired:		
Mortgage guarantee on real estate	264,352,748	375,455,989
Mortgage guarantee other than real state	13,969,917	9,743,396
Pledge deposits	13,059,424	15,583,556
Other	3,690,539	26,246,220
Total	307,839,001	428,280,988

(3) Financial Instruments Risk Management, continued

The Branch monitors the credit risk concentration by sector and geographic location. The analysis of credit risk concentration at the balance sheet date is as follows:

	Loans		Investment Securities		Deposits with Banks	
	2008	2007	2008	2007	2008	2007
Concentration by Sector:						
Corporate	597,080,241	382,400,965	0	0	0	0
Consumer	270,843,999	197,984,228	0	0	0	0
Non-banking financial entities	25,000,000	0	0	0	0	0
Financial entities	51,647,017	0	2,100,000	7,617,800	71,570,324	51,041,515
Government	13,251,984	1,371,060	1,176,665	1,852,518	0	0
	957,823,241	581,756,253	3,276,665	9,470,318	71,570,324	51,041,515
Geographic Concentration:						
Panama	926,265,056	555,509,099	2,100,000	7,617,800	26,570,324	6,041,515
Latin America and the Caribbean	23,098,065	19,657,503	1,176,665	1,852,518	45,000,00	45,000,000
Canada and United States of America	7,948,582	4,224,648	0	0	0	0
Europe and Asia	511,538	2,365,003	0	0	0	0
	957,823,541	581,756,253	3,276,665	9,470,318	71,570,324	51,041,515

The geographic concentrations of loans, investment securities, deposits with banks and contingencies are based on the debtor's location. The geographic concentration for investments, is based on the issuer's locations.

(b) Liquidity Risk

The liquidity risk is defined as the inability of the Branch to comply with all its obligations because of, among other reasons, an unexpected withdrawal of funds by creditors or customers, the deterioration of the quality of the loan portfolio, the devaluations of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of assets liquidity, or the mismatch of long-term assets financing with short term-term liabilities. The Branch manages it's liquid resources in order to repay it's liabilities upon their maturity under normal conditions.

<u>Liquidity risk management:</u>

The Branch follows the liquidity requirements and other technical conditions established by the applicable legislation and the regulatory entity of its Head Office, for which such regulatory entity will exercise the corresponding consolidated supervision with the local regulator.

The Branch is exposed to daily calls on it's available cash resources overnight demand deposits, time deposits, loans and guarantee and margin requirements settled in cash.

The finance area is in charge of performing periodic tests and control verifications in order to mitigate this risk, including: differences between assets and liabilities and immediate liquidity tests, in conformity with the risk management policies established by its Head Office.

Also, minimum liquidity limits have been established on the minimum proportion of available funds to comply with such requirements and on the minimum level of inter-banking facilities and other loan facilities that must exist to cover withdrawals in unexpected levels of demand. The Branch holds a short-term asset portfolio, comprised to a large extent by inter-banking deposits and loans, to ensure that it has enough liquidity.

(3) Financial Instruments Risk Management, continued

Exposure to Liquidity Risk:

The Branch tries to maintain an adequate liquidity level in demand instruments and financial instruments of easy convertibility in the international market. For that purpose it has a portfolio of inter-banking time deposits with duration no greater than 186 days. The percentage of this portfolio must not be less than 30% of deposits received.

The following table presents the undiscounted cash flows of financial assets and liabilities of the Branch, grouped by maturities based on the remaining term from the balance sheet date to the contractual maturity date and loan commitments not recognized on the basis of their earliest maturity possible. The expected cash flows of these instruments may significantly vary as a consequence of these analysis:

2008	Up to 1 year	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	Total
Assets:					
Cash and cash items	1,292,991	0	0	0	1,292,991
Demand deposits	24,765,324	0	0	0	24,765,324
Time deposits	46,805,000	0	0	0	46,805,000
Securities available for sale	98,315	0	0	1,078,350	1,176,665
Securities held to maturity	0	2,100,000	0	0	2,100,000
Loans	460,029,861	137,691,919	84,293,164	275,808,297	957,823,241
Total assets	532,991,491	139,791,919	84,293,164	276,886,647	1,033,963,221
Liabilities:					
Demand deposits	59,060,261	0	0	0	59,060,261
Time deposits	868,246,399	0	1,374,397	0	869,620,796
Savings deposits	65,431,593	0	0	0	65,431,593
Overdraft – Head Office	30,853,963	0	0	0	30,853,963
Total liabilities	1,023,592,216	0	1,374,397	6,286,765	1,024,966,613
Contingencies	63,949,171	4,556,818	0	0	68,505,989
Net liquidity gap	(554,549,896)	135,235,101	82,918,767	276,886,647	(59,509,381)

2007	Up to 1 year	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	Total
Assets:					
Cash and cash items	1,463,976	0	0	0	1,463,976
Demand deposits	4,669,515	0	0	0	4,669,515
Time deposits	46,372,000	0	0	0	46,372,000
Securities available for sale	0	197,665	0	1,654,853	1,852,518
Securities held to maturity	7,617,800	0	0	0	7,617,800
Loans	267,759,035	117,169,660	61,598,336	135,229,222	581,756,253
Total assets	327,882,326	117,367,325	61,598,336	136,884,075	643,732,062
Liabilities:					
Demand deposits	22,046,815	0	0	0	22,046,815
Time deposits	509,500,791	1,287,491	0	0	510,788,282
Savings deposits	20,751,736	0	0	0	20,751,736
Overdraft – Head Office	88,702,365	0	0	0	88,702,365
Total liabilities	641,001,707	1,287,491	0	0	642,289,198
Contingencies	116,532,943	15,853,521	0	0	132,386,464
Net liquidity gap	(429,652,324)	100,226,313	61,598,336	136,884,075	(130,943,600)

(3) Financial Instruments Risk Management, continued

(c) Market Risk

It is the risk that the value of a financial asset of the Branch is reduced as a result of changes in interest rates, foreign currency exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events, whether to latent losses or potential gains. The objective of market risk management is to manage and watch over the risk exposures, and procure that the same are maintained within the acceptable parameters optimizing the risk return.

Market risks are focused on the loss risks derived from adverse movements in the process of products in the financial markets where positions are held in relation with the operations that are present either within or outside the balance sheet. Risks identified within this group are the inherent risks in credit, investments security, treasury, derivative, interest rate, exchange rate and country risk operations.

<u>Management of market risk</u>:
Monitoring of this market risk is carried out by Global Risk Management in the Head Office. In order to mitigate this risk, the Committee of Market and Policy Risk Management has established controls related with: compliance with investment limits, verification of valuations, portfolio ranking, verification of interest payment, compliance with investment policies and interest sensibility tests.

The Head Office, for purposes of the interest rate risk at fair value, has defined intervals in the limits to watch over the sensibility of financial assets and liabilities, for which standard and non-standard interest rate scenarios have been designed.

The standard scenarios established by the Superintendence of Banks of Panama in the monthly and automated generation of the reports include 100 and 200 basic points (bp) parallel to the increases or decreases in the yield curves of the nominal interest rates with respect to the annual weighted average of assets and liabilities.

<u>Cash flow interest rate risk:</u>
Is the risks of fluctuation of the future cash flow due to changes in market interest rates. The interest rate risk of the fair value is the risk of fluctuation of the financial instrument due to changes in the market interest rates.

The Branch assumes an exposure to fluctuation effects in the prevailing levels of market interest rates at either their fair value risk or their cash flow risk. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

(3) Financial Instruments Risk Management, continued

The following table summarizes the Branch's exposure to the interest rate risks. The Branch's assets and liabilities are included in the table at their carrying value, classified by categories of whatever occurs first between the new determination of the contractual rate and the maturity dates.

2008	Up to 1 year	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	Total
Assets:					
Deposits with banks	46,805,000	0	0	0	46,805,000
Securities available for sale	1,176,665	0	0	0	1,176,665
Securities held to maturity	2,100,000	0	0	0	2,100,000
Loans	643,743,410	32,277,317	25,599,113	256,203,401	957,823,241
Total assets	693,825,075	32,277,317	25,599,113	256,203,401	1,007,904,906
Liabilities:					
Time deposits	868,246,399	1,374,397	0	0	869,620,796
Savings deposits	65,431,593	0	0	0	65,431,593
Overdraft – Head Office	30,853,963	0	0	0	30,853,963
Total liabilities	964,531,955	1,374,397	0	0	965,906,352
Total interest sensibility gap	(271,206,880)	30,902,920	25,599,113	256,203,401	41,998,554

2007	Up to 1 year	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	Total
Assets:					
Deposits with banks	46,372,000	0	0	0	46,372,000
Securities available for sale	1,852,518	0	0	0	1,852,518
Securities held to maturity	7,617,800	0	0	0	7,617,800
Loans	200,326,806	69,299,876	126,653,013	185,476,558	581,756,253
Total assets	256,169,124	69,299,876	126,653,013	185,476,558	637,598,571
Liabilities:					
Time deposits	509,500,791	1,287,491	0	0	510,788,282
Savings deposits	20,751,736	0	0	0	20,751,736
Overdraft – Head Office	88,702,365	0	0	0	88,702,365
Total liabilities	618,954,892	1,287,491	0	0	620,242,383
Total interest sensibility gap	(362,785,768)	68,012,385	126,653,013	185,476,558	17,356,188

The annual interest rate on clients' deposits ranges between 2.40% and 5.48% (2007: 2.313% a 5.7005%).

(d) Operational Risk

The operational risk is the risk of potential losses, direct or indirect, related to the processes of the Branch's personnel, technology and infrastructure, and external factors that are not related to the credit, market and liquidity risks, such as those from legal and regulatory requirements and from the behavior of the generally accepted corporate standards.

Management's objective is to manage the operational risk, seeking the avoidance of financial losses and damages and the Branch reputation.

(3) Financial Instruments Risk Management, continued

The main responsibility for the development and implementation of operational risk controls is supported by the development of standards to manage the operational risk, in the following areas:

- Aspects regarding the adequate segregation of functions, including independence in transaction authorization.
- Requirements on the adequate monitoring and reconciliation of transactions.
- Compliance with the regulatory and local requirements.
- Documentation of control and process documentation.
- Periodic assessments of operational risk application, and the adequate controls and procedures about the identified risk.
- Reporting of operational losses and the proposals for the solution.
- Development of the contingency plan.
- Development of training for Branch staff.
- Application of ethics standards in the business.
- Development of activities to mitigate the risk, including security policies.

These Head Office-established policies are, at the same time, supported by a periodic review program performed by the Internal Audit area of the Head Office, and the results of these reviews are discussed with the staff responsible for each department, the General Manager, and communicated through summaries to the Audit Committee.

(e) Capital Management

The Branch complies with the 10% minimum adequacy index mandated by the legislation of its Head Office and it is computed in a consolidated manner with its Head Office. For this purpose, the Branch delivers annually to the Superintendence a certification by the external auditor of its Head Office that certifies that the Branch complies in a consolidated manner with the minimum requirements of capital adequacy.

(4) Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans

The Branch reviews its loan portfolios to assess impairment at least on a monthly basis in accordance with the criteria established in Agreement 6-2000. To determine if an impairment loss should be recorded in the statement of income, the Branch makes decisions as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of a loan portfolio before the decrease could be identified with an individual loan in that portfolio. This evidence includes observable information indicating that there has been an adverse change in the payment condition of borrowers in a group, or national or local economic conditions that correlate with non-compliance instances in Branch assets.

(4) Critical Accounting Estimates and Judgments in Applying Accounting Policies, continued

(b) Impairment of securities available for sale

The Branch determines that securities available for sale are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of whether a decline is significant or prolonged requires judgment. When making this decision, the Branch assesses, among other factors, the normal volatility in the price of securities investments. In addition, the impairment can be appropriate when there is evidence of impairment in the financial condition of the issuer, the industry or sector performance, or changes in the technology and operational or financial cash flows.

(c) Securities held to maturity

The Branch follows IAS 39 guidance in classifying non-derivative financial assets with fixed payments as held to maturity. This classification requires a significant decision. In making this decision, the Branch assesses its intent and ability to hold such investments until maturity.

If the Branch ceases to hold these investments until maturity for a motive other than the circumstances specified in IAS 39 – for example, selling a significant amount close to the maturity date – it will require the reclassification of the entire class of such investments as available for sale, thus impacting the recognition of changes in the fair value of securities in the Bank's capital funds.

(d) Income tax

Important estimates are required when determining the income tax expense, including the effect of temporary differences between the carrying value of assets and liabilities in the financial statements and the basis for income tax applicable to the taxable income for fiscal effects.

The amount of deferred tax in the balance sheet is determined considering the form and opportunity of the future realization of the affected assets and liabilities, based on the income tax rate in effect at the balance sheet date. This involves estimates and assumptions that are considered reasonable under the current circumstances, but it could vary in the future.

(5) Balances and Transactions with Related Parties

The Branch has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and related companies. As of October 31, 2008, the aggregated balances concerning transactions with related parties are the following:

	Key Management Personnel		Related companies	
	2008	**2007**	**2008**	**2007**
Deposits				
Time deposits	0	0	45,000,000	45,000,000
Accrued interest receivable	0	0	15,556	35,550
Loans				
Loans outstanding at beginning of the year	439,463	134,484	0	0
Loans granted during the year	152,203	402,100	0	0
Loan installments	(56,401)	(97,121)	0	0
Loans outstanding at end of the year	535,265	439,463	0	0
Accrued interest receivable	1,117	2,050	0	0
Accounts receivable	0	0	6,042,327	11,495,504

As of October 31, 2008, no provisions have been recognized for impairment with respect to loans granted to related parties.

Loans to key management personnel are granted with the same terms and conditions available for other employees. The terms and conditions are generally based on those granted to third parties adjusted for a lower credit risk. Loans to key management personnel during the period have an interest rate average of 7.303% (2007: 5.875%).

	Key Management Personnel		Related companies	
	2008	**2007**	**2008**	**2007**
Deposits				
Demand deposits	8,661	11,531	16,559	17,318
Savings deposits	136,313	89,439	0	0
Time deposits	16,272	66,161	658,723,803	229,474,258
Accrued interest payable	1	299	2,767,013	831,644
Overdraft	0	0	30,853,963	88,702,365
Other Liabilities	0	0	6,286,765	0
Commitments and Contingencies				
Guarantees	16,000	0	313,041	0

(5) Balances and Transactions with Related Parties, continued

For the year ended October 31, 2008, the following items of income and expenses are included in the aggregated amounts generated by the related transactions above:

	Key Management Personnel		Related companies	
	2008	2007	2008	2007
Interest and commission earned on:				
Deposits	0	0	1,698,691	743,360
Loans	31,154	17,969	0	0
Interest expense on:				
Overdraft	0	0	5,256,060	5,387,632
Deposits	4,785	3,197	12,087,372	11,429,612
Operating expenses:				
Salaries	329,118	322,218	0	0
Employees' benefits	144,390	259,045	0	0
Support charges	0	0	2,000,726	573,793

(6) Deposits with Banks

As of October 31, 2008, the annual interest rate on deposits with banks ranges between 0.25% and 4.87% (2007: 0.25% and 5.60%):

(7) Investment Securities

At October 31, 2008 the securities available for sale are detailed as follows:

2008

Description	Interest Rate	Maturity	Acquisition Cost	Fair Value	Unrealized gains (losses)
Dominican Republic					
Discount bonds	6.2500%	August 2024	1,659,000	1,078,350	(580,650)
PDI Bonds	6.2500%	August 2009	1	98,315	98,314
Total			1,659,001	1,176,665	482,336

2007

Description	Interest Rate	Maturity	Acquisition Cost	Fair Value	Unrealized gains (losses)
Dominican Republic					
Discount bonds	6.2500%	August 2024	1,659,000	1,654,853	(4,147)
PDI Bonds	6.2500%	August 2009	1	197,665	197,664
Total			1,659,001	1,852,518	193,517

The balance of the changes in fair value is reported in equity. During the year 2008, an unrealized loss of B/.675,853 (2007 unrealized loss of: B/.78,861) was recorded resulting from the valuations of available for sale securities.

(7) Investment Securities, continued

The estimated fair value of the different types securities available for sale was obtained from financial intermediaries.

Securities held to maturity

	2008 Amortized Cost	2008 Fair Value	2007 Amortized Cost	2007 Fair Value
Private debt securities	2,100,000	1,974,072	7,617,800	7,106,985

As of October 31, 2008, the annual interest on securities held to maturity ranged between 2.31% and 7.11% (2007: 6.75% and 7.1875%).

(8) Loans

The loan portfolio by economic activity is detailed as follows:

	2008	2007
Local:		
Commercial	375,740,398	277,433,925
Mortgage	345,557,205	184,398,014
Construction	117,680,360	41,268,459
Overdrafts	55,716,166	32,789,252
Consumer	24,166,944	13,140,774
Fishing	3,784,167	2,842,230
Ports and railroads	2,162,500	1,662,500
Mines and quarries	1,381,259	403,747
Agriculture	76,057	84,110
Financial entities	0	1,371,060
Livestock	0	115,028
	926,265,056	555,509,099
Foreign:		
Commercial	23,714,826	25,801,713
Consumer	7,843,359	445,441
	31,558,185	26,247,154
Total loans	957,823,241	581,756,253

Past due and matured loans are summarized as follows:

	2008 Balance	2008 Reserve	2007 Balance	2007 Reserve
Matured loans	1,965,328	65,033	288,709	12,277
Past due loans	12,392,837	0	555,261	0

As of October 31, 2008, the Branch held loans for B/.1,073,223 (2007: B/.366,999) in non accrual status.

(8) Loans, continued

The Branch classifies as matured those loans that at their final maturity date have not been cancelled and as past due those that have fallen behind for 30 days or more in their payments of capital and interest, after the maturity of such payments.

Loan portafolio classification:

			2008		
Loan Classification	**Corporate**	**Consumer**	**Others**	**Total**	**Constituted Reserve**
Normal	595,337,020	258,229,055	89,899,001	943,465,076	0
Special mention	945,104	7,568,710	0	8,513,814	0
Sub-normal	347,547	4,423,581	0	4,771,128	0
Doubtful	450,570	622,653	0	1,073,223	65,033
Total	597,080,241	270,843,999	89,899,001	957,823,241	65,033

			2007		
Loan Classification	**Corporate**	**Consumer**	**Others**	**Total**	**Constituted Reserve**
Normal	382,400,965	197,531,627	1,100,000	581,032,592	0
Special mention	0	124,979	271,060	396,039	0
Doubtful	0	327,622	0	327,622	12,277
Total	382,400,965	197,984,228	1,371,060	581,756,253	12,277

As of October 31, 2008, the Branch does not hold restructured loans (2007: B/.428,800).

As of October 31, 2008, the annual interest rate earned on loans ranged from 4% y 18% (2007: 3.50% y 18%). The weighted average interest rate was 6.64% for the year 2008 (2007: 6.87%).

The allowance for loan losses was determined based on the estimated net loss of loans classified as doubtful. Generic allowances are maintained by its Head Office. (Note 2 g)

The movement of the allowance for loan losses is as follows:

	2008	**2007**
Balance at beginning of year	12,277	0
Provision charged to operations	52,756	12,277
Balance at end of year	65,033	12,277

(9) Premises, Furniture, Equipment and Improvements

Premises, furniture, equipment and improvements are detailed as follows:

2008	Premises	Furniture and equipment	Improvements	Vehicles	Project in process	Total
Cost:						
At beginning of year	1,249,572	1,608,565	2,233,632	62,250	2,240,325	7,394,344
Acquisitions	0	244,588	116,378	56,081	2,850,186	3,267,233
Disposals	0	45744	0	0	0	45,774
At end of year	1,249,572	1,807,379	2,350,010	118,331	5,090,511	10,615,803
Accumulated depreciation and amortization:						
At beginning of year	281,154	953,185	945,310	45,079	0	2,224,728
Expense for the year	31,239	206,872	264,346	9,933	0	512,390
Disposals	0	45,774	0	0	0	45,774
At end of year	312,393	1,114,282	1,209,656	55,012	0	2,691,344
Net balances	937,179	693,096	1,140,354	63,319	2,240,325	7,924,459

2007	Premises	Furniture and equipment	Improvements	Vehicles	Project in process	Total
Cost:						
At beginning of year	1,249,572	1,401,957	1,726,166	48,100	0	4,425,795
Acquisitions	0	216,819	591,697	14,150	2,240,325	3,062,991
Disposals	0	10,211	84,231	0	0	94,442
At end of year	1,249,572	1,608,565	2,233,632	62,250	2,240,325	7,394,344
Accumulated depreciation and amortization:						
At beginning of year	249,913	761,613	762,448	35,500	0	1,809,474
Expense for the year	31,241	201,783	187,515	9,579	0	430,118
Disposals	0	10,211	4,653	0	0	14,864
At end of year	281,154	953,185	945,310	45,079	0	2,224,728
Net balances	968,418	655,380	1,288,322	17,171	2,240,325	5,169,616

(10) Other Assets

The other assets include:

	2008	2007
Prepaid expenses	95,620	223,229
Guarantee deposits	111,296	55,250
Other	47,558	56,212
	254,474	334,691

(11) Overdraft with Head Office

The Branch maintains an overdraft in US dollars with its Head Office, for the granting of loans over the limits prescribed in the country for the Branch, for an amount of B/.30,853,963 (2007: B/.88,702,365). The annual interest rate ranged between 2.66% and 4.94% (2007: between 2.313% and 5.7005%).

(12) Expenses

The breakdown of salary and other personnel expenses and other expenses is presented as follows:

	2008	2007
Salaries and other personnel expenses		
Salaries	4,316,645	2,600,827
Social Security	650,232	524,675
Employees' benefits	392,983	434,174
XIII Month Benefit	281,247	196,114
Other	34,615	27,274
	5,675,722	3,783,064
Other expenses		
Supply expenses	256,588	63,225
Water, electricity and telephone	212,754	136,314
Quotas and registrations	47,343	31,681
Janitorial	83,826	65,191
Furniture and equipment maintenance	164,326	124,798
Transportation	52,346	32,855
Security service	232,306	133,870
Seminars	5,031	35,729
Donations	39,368	65,880
Cafeteria expenses	43,540	22,256
Educational expenses to expatriates	36,722	34,855
Other	1,190,534	409,345
	2,364,684	1,155,999

(13) Commitments and Contingencies

The Branch maintains off balance sheet commitments and contingencies, with credit and liquidity risk that derive from the normal course of business, as follows:

	2008	2007
Letters of credit	59,481,958	42,994,524
Guarantees	228,652	23,182,845
Loan commitments	8,795,379	66,209,095
Total	68,505,989	132,386,464

As of October 31, 2008 and 2007, the Branch has classified in normal category the financial instruments with off balance sheet risk, based on Agreement 6-2002, therefore a reserve for losses on these off balance sheet credit risk operations has not been constituted.

Guarantees on behalf of customers, letters of credit and loan commitments include some exposure to credit loss in the event of non-compliance of the customer, net of collateral guarantees securing these transactions. The Branch credit policies and procedures to approve credit commitments and financial guarantees are the same as those for extension of credits recorded within the Branch assets. It is Management's opinion that no losses to the Branch will result from these contingent liabilities on behalf of customers.

(13) Commitments and Contingencies, continued

Loan commitments are commitments that the Branch accepts to make a payment once certain conditions are complied with, which have an average maturity of six months and are used mainly for the disbursements of mortgage loans.

The Branch maintains commitments related to operating leases that expire over the next five (5) years, which can be extended. Lease payments for the next five years amount approximately to:

Year	Amount
2009	397,522
2010	423,346
2011	433,455
2012	447,080
2013	461,148

Rent expense for 2008 amounted to B/.655,448 (2007: B/.457,187).

(14) Taxes

The income tax returns of the Branch for last three years, including the year ended October 31, 2008, are subject to examination by the local tax authorities, according to current fiscal regulations.

According to current fiscal regulation, the Branch is exempt from payment of income taxes on earnings derived from foreign transactions. Also, exempt from income taxes are interest earned on time deposits with local banks, interest earned on Panama Government securities and on securities issued through the Panama Stock Exchange.

The income tax expense is detailed as follows:

	2008	2007
Income tax	3,383,577	1,418,060
Deferred income tax related to temporary differences	(34,580)	(3,683)
Total income tax expense	3,348,997	1,414,377

The amounts of deferred tax relating to temporary differences were originated by the allowance for loan losses.

(14) Taxes, continued

A reconciliation of income tax and dividend tax computed based on the financial income using actual tax rates of 30% and 10%, respectively, and the income tax and dividend tax computed based on fiscal income, is as follows:

	2008	**2007**
Financial income (income before income tax)	8,108,211	5,647,651
Tax at the applicable tax rate of 30% and 10% (income and dividend taxes)	3,000,038	2,089,631
Tax effect on foreign income and expenses	(9,940)	(615,322)
Tax effect on exempt income and other non taxable income	(858,937)	(249,555)
Tax effect on exempt and non deductible cost and expenses	1,252,416	193,306
Income and dividend taxes estimated based on fiscal income	3,383,577	1,418,060

The effective rate of the financial income tax is 41.30% (2007: 25.04%) and the applicable income tax and dividend rates were 30% and 10%, according to prevailing tax legislation.

(15) Fair Value of Financial Instruments

The following assumptions were made by management to estimate the fair value of each category of financial instruments in the balance sheet:

(a) Demand and time deposits with banks/Demand and saving deposits due to customers

For the above financial instruments, the fair value approximates fair value due to their short term nature.

(b) Investments Securities

For these financial instruments, the fair value is generally determined by the instrument's reference price obtained from financial intermediaries. When independent prices are not available, the fair values are determined based on management's criteria about the instrument's counterpart. The fair value and the carrying value of the investment securities are disclosed in note 7.

(c) Loans

The estimated fair value of loans represents the discounted amount of estimated future cash flows to be received. The forecasted cash flows are discounted at current market rates to determine their fair value.

(d) Time deposits due to customers

For time deposits, the fair value is based on discounted cash flows using market interest rates for new deposits with similarly remaining maturities.

(15) Fair Value of Financial Instruments, continued

(e) Overdraft

The carrying value of borrowing with maturities up to one year or less approximates to fair value due to the short-term nature of these transactions.

Fair value estimates are made at a specific date, based on market estimates and information about the financial instruments. These estimates do not reflect any premium or discount that could result from the offering to sell a specific financial instrument at a given date. These estimates are subjective in nature, involve uncertainty and critical judgment matters, because the current market conditions could not provide enough information to estimate and disclose the fair value of the financial instruments; therefore, these estimates cannot be determined with precision. Any changes in the assumptions or criteria could significantly affect the estimates.

The following table summarizes the carrying value and the fair value of those significant financial assets and liabilities that are not reported at their fair value in the Branch's balance sheet. The market rates are used to calculate the fair value of financial assets and liabilities.

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Demand deposits	24,765,324	24,765,324	4,669,515	4,669,515
Time deposits	46,805,000	46,805,000	46,372,000	46,372,000
Securities held to maturity	2,100,000	1,974,072	7,617,800	7,106,985
Loans	955,036,986	948,854,032	581,357,542	567,525,631
Financial liabilities:				
Demand deposits	59,060,261	59,060,261	22,046,815	22,046,815
Time deposits	869,620,796	870,456,069	510,788,282	507,768,473
Savings deposits	65,431,593	65,431,593	20,751,736	20,751,736
Overdrafts	30,853,963	30,853,963	88,702,365	88,702,365

(16) Derivative Financial Instruments

The Branch subscribed interest rates swap contracts to reduce the interest rate risk of its assets. The Branch reduces its credit risk in relation with these contracts by using its Head Office as counterpart.

The details of hedge contract offered to the customer, classified as fair value asset through profit and loss, is as follows:

2008	Remaining Maturity	Notional Value	Fair Value - Asset
Interest rate swap	2.5 años	173,134,837	6,286,765

(16) Derivative Financial Instruments, continued

The details of hedge contract acquired from the Head Office, classified as fair value liability through profit and loss, is as follows:

2008	Remaining Maturity	Notional Value	Fair Value - Liabilities
Interest rate swap	2.5 años	173,134,837	6,286,765

These contracts have an incremental notional value up to their maturity date (April 29, 2011) that amounts to B/.280,436,323. The objective of this derivative instrument corresponds to an interest rate hedge acquired by the Branch as protection against interest rate fluctuations on the hedge contract signed with one of its customers at a variable interest rate for the same amount.

(17) Banking Law in Panama

The Banking operations in Panama are regulated by the Superintendence of Banks in accordance with legislation established by Law Decree No.9 of February 26, 1998, modified by Law Decree No. 2 of February 22, 2008.

Among other, Law No. 9 mandates banks with general banking license to maintain Capital Funds of at least 8% of total weighted assets and off-balance sheet operations. However, for the branches of foreign banks with general license, the requirements of capital funds and the limits to grant loans will be measured with regard to the Consolidated Capital Funds of their head offices, in accordance with the ratios required by the legislation of the Head Office country.