Scotiabank Jamaica Foundation

Financial Statements
31 December 2018

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Independent Auditor's Report

To the Members of Scotiabank Jamaica Foundation

Report on the audit of the financial statement

Our opinion

In our opinion, the financial statements give a true and fair view of, the financial position of Scotiabank Jamaica Foundation (the Company) as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

What we have audited

The Company's financial statements comprise:
- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then end; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees and management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants
24 April 2019
Kingston, Jamaica

Scotiabank Jamaica Foundation

Statement of Comprehensive Income

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Income			
Contributions		24,688	9,156
Investment income		17,466	17,941
Net gains on financial assets at FVPL		12,586	-
Foreign exchange gains/(losses)		2,769	(5,690)
Other income		-	1,412
		57,509	22,819
Expenditure			
Grants	7	31,034	23,079
Auditor's remuneration		363	330
Commission expense		-	516
Miscellaneous expenses		526	1,973
		31,923	25,898
Surplus/(Deficit)		25,586	(3,079)
Unrealized (losses)/gains on financial instruments measured at FVOCI		(4,933)	26,058
Total Comprehensive Income		20,653	22,979

Scotiabank Jamaica Foundation

Statement of Financial Position

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018	2017
		$'000	$'000
NET ASSETS			
Assets			
Investment securities	8	309,037	301,691
Unit Trust Shares – Financial Assets at FVPL		103,603	91,016
Taxation recoverable	3(ii)	592	592
Cash and cash equivalents		14,511	13,608
		427,743	406,907
Liability			
Accrued expense		599	416
		427,144	406,491
REPRESENTED BY			
Accumulated surplus		77,563	7,577
Endowment fund	9	350,000	350,000
Fair value reserve	10	(419)	48,914
		427,144	406,491

Approved for issue by the Board of Directors on 24 April 2019 and signed on its behalf by:

David Noel — Chairman

Kiyomi Daniel — Director

Scotiabank Jamaica Foundation

Statement of Changes in Equity

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Endowment Fund $'000	Accumulated Surplus $'000	Fair Value Reserve $'000	Total $'000
Balance at 31 December 2016	350,000	10,656	22,856	383,512
Total Comprehensive Income:				
Net Deficit	-	(3,079)	-	(3,079)
Realized losses on investment securities	-	-	(3)	(3)
Unrealised gains on investment securities	-	-	26,061	26,061
Balance at 31 December 2017	350,000	7,577	48,914	406,491
Reclassification of fair value gains from adopting IFRS 9	-	44,400	(44,400)	-
Balance at 1 January 2018	350,000	51,977	4,514	406,491
Total Comprehensive Income:				
Net Surplus	-	25,586	-	25,586
Unrealised losses on investment securities	-	-	(4,933)	(4,933)
Balance at 31 December 2018	350,000	77,563	(419)	427,144

Scotiabank Jamaica Foundation

Statement of Cash Flows

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	2018 $'000	2017 $'000
CASH RESOURCES WERE PROVIDED BY/(USED IN):		
Operating Activities		
Surplus/(Deficit)	25,586	(3,079)
Items not affecting cash resources:		
Investment income	(17,466)	(17,941)
Unrealised gains on financial assets at FVPL	(12,586)	-
Unrealised foreign exchange (gains)/losses	(2,769)	5,690
	(7,235)	(15,330)
Change in non-cash working capital components:		
Taxation recoverable	-	(390)
Accrued expenses	183	87
	(7,052)	(15,633)
Interest received	13,505	12,538
Cash provided by/(used in) operating activities	6,453	(3,095)
Investing Activities		
Purchase of financial instruments at FVOCI, net	(5,550)	(20,438)
Cash used in investing activities	(5,550)	(20,438)
Net increase/(decrease) in cash resources	903	(23,533)
Cash and cash equivalents at beginning of year	13,608	37,141
CASH AND CASH EQUIVALENTS AT END OF YEAR	14,511	13,608

Scotiabank Jamaica Foundation

Notes to the Financial Statements
31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

1. Incorporation and Main Objectives

The company was incorporated in Jamaica on 13 February 1996 as a company limited by guarantee not having a share capital. The company is operated and funded by The Bank of Nova Scotia Jamaica Limited (BNSJ), which is incorporated and domiciled in Jamaica. BNSJ's ultimate holding company is The Bank of Nova Scotia, which is incorporated and domiciled in Canada.

The main objectives for which the company is established are:

(a) The relief of poverty, deprivation and distress among economically and socially disadvantaged persons resident in Jamaica by whatever means deemed necessary by the company.

(b) The provision of financial assistance for dependents of economically or socially disadvantaged persons resident in Jamaica.

(c) To undertake research into the special problems arising from poverty and social deprivation and into methods of alleviating them and publish the results of such.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

Standards, interpretations and amendments to published standards effective in the current year

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. The Company has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following, which are immediately relevant to its operations:

IFRS 9, 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2018). The standard introduces new requirements for the classification, measurement and recognition of financial assets and financial liabilities, in order to ensure that relevant and useful information is presented to users of financial statements. It replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The determination of classification is made at initial recognition, and depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. A debt instrument is measured at amortized costs if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and b) the contractual cash flows of the instrument solely represents payments of interest and principal. All equity instruments are measured at fair value under IFRS 9.

Scotiabank Jamaica Foundation

Notes to the Financial Statements
31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

IFRS 9, 'Financial Instruments' (continued)
IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. This is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

There is no expected impact on the company's accounting for financial liabilities, as the new requirements only impact financial liabilities that are designated at fair value through profit or loss, and the company does not currently have any such liabilities.

Changes in accounting policy resulting from adoption has been applied retrospectively as at 1 January 2018, but with no restatement of comparative information for prior years. Consequently, the company has recognised adjustments to the carrying amounts of financial assets between IAS 39 and IFRS 9 in the opening retained earnings.

IFRS 15, 'Revenue from Contracts with Customers', (effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the the control of goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The amendment is not expected to have a significant impact on the Company's financial statements.

There are no other IFRSs or IFRIC interpretations effective in the current year which are expected to have a significant impact on the accounting policies or financial disclosures of the company.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not effective at the date of the statement of financial position, and which the Company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that none are relevant to its operations.

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Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

(b) Revenue recognition

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When an instrument is impaired, the Company uses the impairment method noted in note 2(c) below to reduce its carrying amount. Interest income includes coupons earned on fixed income investments and accrued discounts and premiums on local debt instruments and other discounted instruments.

Contributions and other income
Contributions received, with the exception of contributions directly to the Endowment Fund, are recorded as income on the cash basis. Other income is recorded on the accrual basis.

(c) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity in another entity.

Financial assets
The company's financial assets comprise cash and cash equivalents, investment securities and unit trust shares.

Financial liabilities
The company's financial liabilities are comprised of accrued expenses.

Accounting policies applied from 1 January 2018

(i) Classification
From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition
Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

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2. Summary of Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

(iii) Measurement
At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments
Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are the two measurement categories into which the Company classifies its debt instruments:

- Amortised cost - Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets using the effective interest rate method is included in other operating income together with foreign exchange gains and losses. Any gain or loss on derecognition is recognized directly in profit or loss and presented in other gains/(losses). Impairment losses are presented as a separate line item in the statement of profit or loss.

- Fair value through other comprehensive income (FVOCI) – Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial is included in other operating income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.

- Fair value through profit or loss (FVPL) - Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

Equity instruments
The Company subsequently measures all equity investments at fair value.

Changes in the fair value of financial assets at FVPL are recognised in net gains/(losses) in the statement of profit or loss as applicable.

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Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

(iv) Impairment
From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial instruments carried at fair value through other comprehensive income (FVOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The loss allowance for debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

Accounting policies applied prior to 1 January 2018

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

(i) Classification
Until 31 December 2017, the Company classified its financial assets as available-for-sale.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These assets are classified as cash and investments on the statement of financial position.

(ii) Recognition and derecognition
Purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(iii) Measurement
Financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement.

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Notes to the Financial Statements
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(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

(iv) Impairment
The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Financial liabilities
The Company's financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. At the statement of financial position date, the following items were classified as financial liabilities: accrued expenses.

(d) Cash and cash equivalents
For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and bank balances.

(e) Change in accounting policy

IFRS 9, 'Financial Instruments'

As explained in Note 2(a), IFRS 9, 'Financial Instruments' became effective 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2(c) above. In accordance with the transitional provisions of IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, 'Financial Instruments: Disclosures'.

(i) Classification and measurement

The total impact on the Company's retained earnings due to classification and measurement of financial instruments as at 1 January 2018 is as follows:

	$'000
Opening retained earnings - IAS 39	7,577
Increase in provision for debt instruments at FVOCI	-
Gains on equity instruments reclassified as FVPL	44,400
Adjustment to retained earnings from adoption of IFRS 9	44,400
Opening retained earnings – IFRS 9	51,977

2. Summary of Significant Accounting Policies (Continued)

(e) Change in accounting policy (continued)

(i) Classification and measurement (continued)

Reclassifications of financial instruments on adoption of IFRS 9
On the date of initial application, 1 January 2018, the financial instruments of the Company were as follows, with any reclassifications noted:

	Original (IAS 39)	New (IFRS 9)	Original $'000	New $'000	Difference $'000
Debt Instrument	Available-for-sale	FVOCI	301,691	301,691	-
Equity instrument	Available-for-sale	FVPL	91,016	91,016	-
Other receivables	Amortized cost	Amortised cost	592	592	-
Cash and short term investments	Amortized cost	Amortised cost	13,608	13,608	-
			406,907	406,907	-

(ii) Impairment of financial assets

The Company has two types of financial assets subject to IFRS 9's new expected credit loss model:

- Debt instruments carried at FVOCI; and
- Other debt instruments carried at amortised cost

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Company is disclosed in the table in Note 2(e) above.

Financial assets at FVOCI
The Company has determined the loss allowance for credit losses by taking in to account all reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the statement of financial position date. Management has determined that the computed loss allowance was immaterial and no adjustment was made to the accumulated surplus at 1 January 2018.

Other debt instruments
Debt instruments at amortised costs are considered low risk. For those assets considered to be low risk, the impairment provision is determined as 12 months expected credit losses. The computed loss allowance was immaterial.

3. Taxation

(i) By order of the Minister of Finance, the company was declared an approved charitable organisation. Its income is also exempt from income tax under Section 12(h) of the Income Tax Act.

(ii) Taxation recoverable represents withholding tax receivable on investment income.

Scotiabank Jamaica Foundation

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4. Financial Risk Management

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The company's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Company's sponsor, The Bank of Nova Scotia Jamaica Limited, monitors all the various risks and has monthly department meetings.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

(a) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Company by failing to discharge their contractual obligations. Credit exposure arises principally in investment activities. The Company manages its credit risk by maintaining its investments mainly in various forms of Government of Jamaica securities.

Credit review process

The Company has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest payments.

Investments and other receivable

The Company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

The following table summarises the company's credit exposure for debt securities at their carrying amounts:

	2018	2017
	$'000	$'000
Government of Jamaica	260,124	258,186
Sovereign Debt	21,912	20,464
Interest receivable	27,001	23,041
Cash and cash equivalents	14,511	13,608
	323,548	315,299

Scotiabank Jamaica Foundation

Notes to the Financial Statements
31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets

The Company has two types of financial assets subject to IFRS 9's new expected credit loss model:

- Debt instruments carried at FVOCI; and
- Other debt instruments carried at amortised cost

While cash at bank is also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Debt Instruments and other financial assets.

The company's assets are considered low risk, and loss allowance considered during the periods were immaterial.

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

The Company's liquidity management process includes:

(i) An established line of credit with The Bank of Nova Scotia Jamaica Limited;

(ii) Monitoring future cash flows and liquidity on a daily basis;

(iii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; and

(iv) Optimising cash returns on investments.

Undiscounted cash flows of financial liabilities cash flows

The Company has no significant outflows in respect of financial liabilities. Accrued expense at year end is due within three months and the company has adequate cash resources to cover these, along with payments in respect of grants authorised and contracted for.

The company is also able to meet unexpected net cash outflows by having an established line of credit with its sponsor.

Scotiabank Jamaica Foundation

Notes to the Financial Statements
31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(c) Market risk

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the company's sponsor.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs from investment transactions. The company's sponsor monitors its exposure to foreign exchange risk.

Concentrations of currency risk

The table below summarises the company exposure to foreign currency exchange rate risk at 31 December.

	Jamaican$	US$	Total
	J$'000	J$'000	J$'000
		2018	
Financial Assets			
Investment securities	147,105	161,932	309,037
Unit trust shares	103,603	-	103,603
Cash and cash equivalents	6,152	8,359	14,511
Total financial assets	256,860	170,291	427,151
Financial Liability	599	-	599
Net financial position	256,261	170,291	426,552
Credit commitments	36,615	-	36,615

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(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) *Currency risk (continued)*

Concentrations of currency risk (continued)

	Jamaican$ J$'000	US$ J$'000	Total J$'000
		2017	
Financial Assets			
Investment securities	142,829	158,862	301,691
Unit trust shares	91,016	-	91,016
Cash and cash equivalents	10,829	2,779	13,608
Total financial assets	244,674	161,641	406,315
Financial Liability	416	-	416
Net financial position	244,258	161,641	405,899
Credit commitments	33,430	-	33,430

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company's exposure to interest rate risk is monitored by its sponsor and is managed by maintaining an appropriate mix of fixed and variable instruments. The policy also requires it to manage the maturities of interest bearing financial assets.

The following table summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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4. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
			2018			
Financial Assets						
Investment securities	33,291	15,024	-	233,721	27,001	309,037
Unit trust shares	-	-	-	-	103,603	103,603
Cash and cash equivalents	14,511	-	-	-	-	14,511
Total financial assets	47,802	15,024	-	233,721	130,604	427,151
Financial Liability	-	-	-	-	599	599
Total interest repricing gap	47,802	15,024	-	233,721	130,005	426,552
			2017			
Financial Assets						
Investment securities	31,127	2,047	15,076	230,400	23,041	301,691
Unit trust shares	-	-	-	-	91,016	91,016
Cash and cash equivalents	13,608	-	-	-	-	13,608
Total financial assets	44,735	2,047	15,076	230,400	114,057	406,315
Financial Liability	-	-	-	-	416	416
Total interest repricing gap	44,735	2,047	15,076	230,400	113,641	405,899

Interest rate sensitivity

Interest rate sensitivity aims to analyse the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the company's income and expenditure account and accumulated surplus.

The sensitivity of the surplus or deficit is the effect of the assumed changes in interest rates on net income based on the floating rate non-trading financial assets and financial liabilities. The correlation of variables will not have a significant effect in determining the ultimate impact on market risk.

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5. Fair Value Estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table provides an analysis of financial instruments held as at the statement of the financial position date that, subsequent to initial recognition, are measured at fair value. Financial instruments are grouped into levels 1 to 3 based on the degree to which the fair values are observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regular occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
		2018		
Financial assets				
Government Bonds	-	260,124	-	260,124
Sovereign Debt	-	21,912	-	21,912
Unit Trust Shares	-	103,603	-	103,603
		385,639	-	385,639
		2017		
Financial assets				
Government Bonds	-	258,186	-	258,186
Sovereign Debt	-	20,464	-	20,464
Unit Trust Shares	-	91,016	-	91,016
	-	369,666	-	369,666

There were no transfers between any levels during the year.

5. Fair Value Estimation (Continued)

The following method and assumption have been used in determining fair values for instruments not measured at fair value after initial recognition.

The fair value of financial assets and liabilities maturing within one year is estimated to approximate their carrying amount. These financial assets and liabilities include cash and cash equivalents and accrued expenses.

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the company's accounting policies
In the process of applying the company's accounting policies, management has made no critical accounting estimates or judgements which it believes has a significant risk of causing a material misstatement in these financial statements.

7. Grants

Details of grants made during the year are as follows:

	2018 $'000	2017 $'000
Education		
Grade Six Achievement Test (GSAT) Scholarships	6,801	8,235
Scholarships for Tertiary Education	-	1,469
Nutrition for Learning/Breakfast Feeding Programme	23,333	960
Other	-	4,279
	30,134	14,943
Health Care		
Scoliosis and Spine Care – Surgeries	-	3,036
Other	-	164
	-	3,200
Other	900	4,936
	31,034	23,079

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8. Financial Instruments at FVOCI

	Within 3 Months $'000	4 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Carrying Value 2018 $'000	Carrying Value 2017 $'000
Government of Jamaica bonds	-	15,024	6,488	238,612	260,124	258,186
Sovereign bonds	3,160	-	-	18,752	21,912	20,464
Interest receivable	7	588	29	26,377	27,001	23,041
	3,167	15,612	6,517	283,741	309,037	301,691

9. Endowment Fund

This consists of contributions received by the company. The income generated by investing these contributions is used primarily to build the Endowment Fund and make charitable donations to various organisations.

10. Fair Value Reserve

This represents the unrealised gains and losses on the revaluation on financial instruments measured at FVOCI.

11. Related Party Transactions

A related party is one which controls or exercises significant influence over, or are controlled or significantly influenced by, the company in making financial and operating decisions or, along with the company, is subject to common control or significant influence.

The company's bank account is held with The Bank of Nova Scotia Jamaica Limited.

12. Grant Commitments

	2018 $'000	2017 $'000
Grants authorised and contracted for	36,615	33,430