THE SCOTIA JAMAICA BUILDING SOCIETY

FINANCIAL STATEMENTS

OCTOBER 31, 2022

KPMG
Chartered Accountants
P.O. Box 436
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Scotia Jamaica Building Society ("the Society"), set out on pages 5 to 51, which comprise the statement of financial position as at October 31, 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Society as at October 31, 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Society in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants including, International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Society'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 management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditors' 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 auditors' 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 skepticism 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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

- 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 Society'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 Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Society 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on additional matters as required by the Building Societies 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.

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 1988 held in respect of mortgage loans were produced to us and actually inspected by us and we are satisfied that the remaining deeds not inspected by us were in the hands of attorneys or elsewhere in the normal course of business of the Society.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, are duly vouched in accordance with law.

KPMG

Chartered Accountants
Kingston, Jamaica

December 20, 2022

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Profit or Loss and Other Comprehensive Income
Year ended October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2022	2021
Net interest income and other revenue			
Interest income, calculated using the effective interest method	4	1,570,591	1,696,082
Interest expense	4	(36,022)	(138,805)
Net interest income	4	1,534,569	1,557,277
Recovery/(expected credit loss)	[21(a)(iii)]	77,269	(56,872)
Net interest income after recovery/ (expected credit loss)		1,611,838	1,500,405
Net foreign exchange losses		(297)	(2)
Fee and commission income	5	27,746	27,864
Gain on extinguishment of liabilities	15a	-	494,098
		1,639,287	2,022,365
Expenses			
Salaries, pension plan contributions and other staff benefits	6	26,198	73,218
Property expenses, including depreciation	7	17,174	17,112
Asset tax	7	46,986	54,187
Other operating expenses	7	87,033	92,123
Brokerage commission	7,15a	-	75,482
Total non-interest expenses	7	177,391	312,122
Profit before taxation	8	1,461,896	1,710,243
Taxation	9	(452,663)	(529,329)
Profit after taxation		1,009,233	1,180,914
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss:			
Expected credit loss on balances with Bank of Jamaica		6	-
Deferred taxation		(2)	-
		4	-
Total comprehensive income		1,009,237	1,180,914

The accompanying notes form an integral part of the financial statements.

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Financial Position
October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2022	2021
ASSETS			
Cash resources			
Cash and balances with Bank of Jamaica		1,556,463	1,582,608
Bank current account with parent	10	3,356,054	2,128,999
	10	4,912,517	3,711,607
Loans, net of allowance for expected credit losses	11	17,664,628	20,230,249
Other assets			
Other receivables		14,864	7,888
Taxation recoverable		40,133	-
Property, plant and equipment	12	16,841	17,692
Deferred tax assets	13	57,130	76,787
		128,968	102,367
		22,706,113	24,044,223

The accompanying notes form an integral part of the financial statements.

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Financial Position (Continued)
October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2022	2021
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits by the public	14	7,094,751	7,861,736
Amounts due to other financial institutions	15	9,398	993,153
Other liabilities			
Taxation payable		-	126,672
Amount due to parent		16,868	1,197
Other payables	16	29,430	53,036
		46,298	180,905
		7,150,447	9,035,794
Shareholders' equity			
Share capital	17	70,000	70,000
Reserve fund	18	229,250	229,250
Retained earnings reserve	19	4,950,750	4,950,750
Loan loss reserve	20	77,598	-
Cumulative remeasurement results from cash resources		4	-
Unappropriated profits		10,228,064	9,758,429
		15,555,666	15,008,429
		22,706,113	24,044,223

The financial statements on pages 5 to 51 were approved for issue by the Board of Directors on December 20, 2022 and signed on its behalf by:

_________________________ Director
Audrey Tugwell Henry

_________________________ Director
Barbara Alexander

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Changes in Equity
Year ended October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Number of shares	Share capital (Note 17)	Reserve fund (Note 18)	Retained earnings reserve (Note 19)	Loan loss reserve (Note 20)	Cumulative remeasurement result from cash resources	Unappropriated profits	Total
Balances at October 31, 2020	70,000	70,000	229,250	4,950,750	231,724	-	8,345,791	13,827,515
Movement between reserves:								
Transfer from loan loss reserve	-	-	-	-	(231,724)	-	231,724	-
Total comprehensive income for the year:								
Profit for the year, being total comprehensive income	-	-	-	-	-	-	1,180,914	1,180,914
Balances at October 31, 2021	70,000	70,000	229,250	4,950,750	-	-	9,758,429	15,008,429
Movement between reserves:								
Transfer from loan loss reserve	-	-	-	-	77,598	-	(77,598)	-
Dividends paid (Note 26)	-	-	-	-	-	-	(462,000)	(462,000)
Total comprehensive income for the year:								
Profit for the year	-	-	-	-	-	-	1,009,233	1,009,233
Expected credit losses on balances with Bank of Jamaica, net of taxes	-	-	-	-	-	4	-	4
Balances at October 31, 2022	70,000	70,000	229,250	4,950,750	77,598	4	10,228,064	15,555,666

The accompanying notes form an integral part of the financial statements.

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Cash Flows
Year ended October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2022	2021
Cash flows from operating activities			
Profit for the year		1,009,233	1,180,914
Adjustments for:			
Depreciation	12	1,210	1,715
(Recovery)/expected credit losses	[21(a)(iii)]	(77,269)	56,872
Gain on extinguishment of liabilities	15	-	(494,098)
Income tax expense	9	452,663	529,329
		1,385,837	1,274,732
Interest income	4	(1,570,591)	(1,696,082)
Interest expense	4	36,022	138,805
		(148,732)	(282,545)
Changes in operating assets and liabilities:			
Cash reserves at Bank of Jamaica		29,288	(1,572)
Loans		2,535,578	2,874,925
Other receivables		(6,977)	16,143
Deposits by the public		(760,011)	(265,433)
Deposits by parent and fellow subsidiaries		(979,301)	(2,070,629)
Deposits with other financial institutions		(327)	672
Amounts due to other financial institutions		-	(1,270,538)
Other liabilities		(7,935)	(628)
		661,583	(999,605)
Interest received		1,674,151	1,816,148
Interest paid		(47,450)	(152,086)
Income tax paid		(599,810)	(784,790)
Net cash provided by/(used in) operating activities		1,688,474	(120,333)
Cash flow from investing activity			
Purchase of property, plant and equipment, being net cash used by investing activity	12	(359)	(718)
Cash flow from financing activity			
Dividends paid to stockholders, being net cash used by financing activity	26	(462,000)	-
Effect of exchange rate fluctuation on cash and cash equivalents		327	(672)
Net increase/(decrease) in cash and cash-equivalents		1,226,442	(121,723)
Cash and cash-equivalents at beginning of year		3,608,493	3,730,216
Cash and cash-equivalents at end of year	10	4,834,935	3,608,493

The accompanying notes form an integral part of the financial statements.

1. Identification, regulation and licence

The Scotia Jamaica Building Society ("the Society"), which is domiciled in Jamaica, was incorporated under the Building Societies Act on June 24, 1993 and commenced operations in September 1994. The Society is a wholly-owned subsidiary of The Bank of Nova Scotia Jamaica Limited ("the Bank"), which is in turn a 100% subsidiary of Scotia Group Jamaica Limited. Both of these companies are incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotia Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia which is incorporated and domiciled in Canada, is the ultimate parent. The registered office of the Society is located at 95 Harbour Street, Kingston, Jamaica.

The principal activities are the acceptance of customers' deposits and financing of mortgages. The Society is licensed under the Building Societies Act (as amended by the Banking Services Act, 2014) and the Banking Services Regulations, 2015.

The licence requires, *inter alia*, that:

(a) 10% of profit for the year be transferred annually to a reserve fund until the amount in the reserve fund is equal to the total amount paid up on its capital shares and its deferred shares;

(b) 1% of savings funds be maintained as a cash reserve placed on deposit with the Bank of Jamaica (BOJ) provided that the value of qualifying assets is at least 40% of deposit liabilities; and

(c) Liquid assets be 5% of savings fund provided that the value of qualifying assets is at least 40% of deposit liabilities.

2. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the relevant provisions of the Building Societies Act and the Banking Services Act.

Amended standards that became effective during the year

Certain new and amended standards came into effect during the current financial year. The Society has assessed them and has adopted those which are relevant to its financial statements:

THE SCOTIA JAMAICA BUILDING SOCIETY

Notes to the Financial Statements (Continued)
October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

Amended standards that became effective during the year (continued)

(i) Amendments to IFRS 9 *Financial Instruments*, IAS *39 Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance contracts* and IFRS 16 *Leases*, is effective for annual accounting periods beginning on or after January 1, 2021 and address issues affecting financial reporting in the period leading up to interbank offered rates (IBOR) reform. The second phase amendments apply to all hedging relationships directly affected by IBOR reform. The amendments principally address practical expedient for modifications. A practical expedient has been introduced where changes will be accounted for by updating the effective interest rate if the change results directly from IBOR reform and occurs on an 'economically equivalent' basis. A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform. In these instances, a revised discount rate that reflects the change in interest rate will be used in remeasuring the lease liability.

The amendments also address specific relief from discontinuing hedging relationships as well as new disclosure requirements.

These amendments did not have a significant impact on the Society's financial statements.

New and revised standards and interpretations that are not yet effective

At the date of authorisation of these financial statements, the following relevant standards, amendments to existing standards and interpretations have been published but were not yet effective and the Society has not early adopted them:

(i) *Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9, Financial Instruments, IFRS 16 Leases* and are effective for annual reporting periods beginning on or after January 1, 2022.

(a) IFRS 9 *Financial Instruments,* amendment clarifies that – for the purpose of performing the 10 per cent test for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

(b) IFRS 16 *Leases,* amendment removes the illustration of payments from the lessor relating to leasehold improvements.

The Society does not expect the amendment to have a significant impact on its 2023 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations that are not yet effective (continued)

(ii) Amendments to IAS 37 *Provision, Contingent Liabilities and Contingent Assets* is effective for annual periods beginning on or after January 1, 2022 and for the purpose of assessing whether a contract is onerous, clarifies those costs that comprise the costs of fulfilling the contract.

This clarification will require entities that apply the 'incremental cost' approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

The Society does not expect the amendment to have a significant impact on its 2023 financial statements.

(iii) Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and, instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period.

It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

With the amendments, convertible instruments may become current. In light of this, the amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that a company can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

The Society does not expect the amendment to have a significant impact on its 2024 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations that are not yet effective (continued)

(iv) Amendments to IAS 1 *Presentation of Financial Statements* are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. The amendments help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include:

- requiring companies to disclose their *material* accounting policy information rather than their *significant* accounting policies;
- clarifying *that* accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are consistent with the refined definition of material:

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements*, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".*

The Society is assessing the impact that the amendment will have on its 2024 financial statements.

(v) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are effective for periods beginning on or after January 1, 2023, with early adoption permitted. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates, unless they result from the correction of prior period errors.

The Society is assessing the impact that the amendment will have on its 2024 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations that are not yet effective (continued)

(vi) Amendments to IAS 12 Income Taxes are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other component of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.

The Society does not expect the amendment to have a significant impact on its 2024 financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates based on assumptions and judgements. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. 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 3.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Society's functional currency. Except where otherwise indicated, financial information presented in Jamaican dollars has been rounded to the nearest thousand.

2. Summary of significant accounting policies (continued)

(b) Revenue recognition

Interest income

Interest income is recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments or a shorter period where appropriate, to its gross carrying amount.

When calculating the effective interest rate for financial instruments, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (ECL).

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset is calculated on initial recognition. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) and is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI, includes interest on financial assets measured at amortised cost.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the Building Societies Regulations stipulate that interest should be taken into account on the cash basis.

The difference between the amounts recognised under the banking regulations and such amounts as would have been determined under IFRS is considered to be immaterial.

Fee and commission income

Fee and commission income from contracts with customers are recognised when the performance obligations are satisfied and is measured based on the consideration specified in a contract with a customer.

2. Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

Fee and commission income (continued)

Fee and commission income which includes account service fees, is recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Society's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Society first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Performance obligations and revenue recognition policies:

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are as follows:

Type of service	*Nature and timing of satisfaction of performance obligations, including significant payment terms.*	*Revenue recognition under IFRS 15.*
Financial transaction fees	The Society provides banking related services, including execution of customers' transactions and loan processing. Fees for ongoing account management are charged to the customer's account on a monthly basis. Loan originating fees are charged based on a fixed rate determined by the Society.	Revenue from account services and servicing fees are recognised over time as the services are provided. Loan origination fees are recognised at a point in time once the transaction is completed.

(c) Interest expense

Interest expense is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

(d) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the reporting date. Foreign currency non-monetary items that are measured at historical cost are translated at historical rates.

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains/losses resulting from fluctuations in exchange rates are recognised in profit or loss.

2. Summary of significant accounting policies (continued)

(e) Taxation

Taxation expense comprises current and deferred income tax charges. Current and deferred income taxes are recognised as tax expense or benefit in profit or loss and other comprehensive income.

Current income tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Society's liability for current tax is calculated at tax rates that have been enacted as at the reporting date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates as at the reporting date are used in the determination of deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be realised.

Current and deferred tax assets and liabilities are offset when the legal right of set-off exists, and when they relate to income tax levied by the same tax authority on either the same taxable entity, or different taxable entities intend to settle current tax liabilities and assets on a net basis.

(f) Financial assets and liabilities

Financial assets comprise cash resources, loans and certain other assets. Financial liabilities comprise deposits, amounts due to other financial institutions and certain other liabilities.

Recognition

The Society initially recognises loans and receivables and deposits on the date at which it becomes a party to the contractual provisions of the instrument, i.e., the date that they are originated. All other financial assets and liabilities are initially recognised on the settlement date – the date on which the asset is delivered to or by the Society.

Classification and measurement

Classification and measurement of financial assets

Financial assets are classified into one of the following measurement categories:

- Amortized cost;

- Fair value through other comprehensive income (FVOCI);

- Fair value through profit or loss (FVTPL);

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

Classification and measurement (continued)

Debt instruments

Debt instruments, including cash resources and loans, are classified and measured at amortised cost.

Classification of debt instruments is determined based on:

(i) The business model under which the asset is held; and

(ii) The contractual cash flow characteristics of the instrument.

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Society's business model assessment is based on the following categories:

- Held to collect: the objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.

- Held to collect and for sale: both collecting contractual cashflows and sales are integral to achieving the objectives of the business model.

- Other business model: this business model is neither held-to-collect nor held-to-collect and for sale. The Society assesses business model at a portfolio level and reflects how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, the Society takes into consideration the following factors:

  - How the performance of assets in a portfolio is evaluated and reported to division heads and other key decision makers within the Society's business lines;

  - How compensation is determined for the Society's business lines' management that manages the assets;

  - The risks that affect the performance of assets held within a business model and how those risks are managed; and

  - The frequency and volume of sales in prior periods and expectations about future sales activity.

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

Classification and measurement (continued)

Contractual cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Society identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortized cost

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognised in interest income using the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortised cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Classification *and measurement of financial liabilities*

The Society's financial liabilities are classified and measured at amortised cost. These financial liabilities include deposits by the public, amounts due to other financial institutions, amount due to parent and other payables. Interest on deposits, calculated using the effective interest rate method, is recognised as interest expense.

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

Derecognition

Derecognition of financial assets

The derecognition criteria are applied to the transfer of part of an asset, rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Society transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Society has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party.

Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Society has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Society derecognizes the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Society retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the statement of profit or loss and other comprehensive Income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the statement of profit or loss and other comprehensive income.

(g) Allowance for expected credit losses

The Society applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach, as required under IFRS 9, for the following categories of financial instruments that are not measured at fair value through profit or loss:

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

- Amortised cost financial assets; and
- Off-balance sheet loan commitments.

Expected credit loss impairment model

The Society's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

Measurement of expected credit loss (continued)

Details of these statistical parameters/inputs are as follows (continued):

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

The estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information may require significant judgment.

Macroeconomic factors

In its models, the Society relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, central-bank interest rates, and house-price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

Multiple forward-looking scenarios

The Society determines its allowance for credit losses using three probability-weighted forward-looking scenarios. The Society considers both internal and external sources of information and data in order to achieve unbiased projections and forecasts. The Society prepares the scenarios using forecasts generated by Scotiabank Economics (SE). The forecasts are created using internal and external models which are modified by SE as necessary to formulate a 'base case' view of the most probable future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves the development of two additional economic scenarios and consideration of the relative probabilities of each outcome.

The 'base case' represents the most likely outcome and is aligned with information used by the Society for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Society has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses.

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

Assessment of significant increase in credit risk (SIR)

At each reporting date, the Society assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SIR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook.

The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Retail portfolio – For retail exposures, a significant increase in credit risk cannot be assessed using forward looking information at an individual account level. Therefore, the assessment must be done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

Expected life

When measuring expected credit loss, the Society considers the maximum contractual period over which the Society is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Presentation of allowance for expected credit losses in the Statement of Financial Position

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets; and

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

Modified financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognised. Where a modification does not result in derecognition, the date of origination continues to be used to determine SIR. Where a modification results in derecognition, the new financial asset is recognised at its fair value on the modification date. The modification date is also the date of origination for this new asset.

The Society may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

For all financial assets modifications of the contractual terms may result in derecognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, authorised amount, term, or type of underlying collateral. The original loan is derecognised and the new loan is recognised at its fair value. The difference between the carrying value of the derecognised asset and the fair value of the new asset is recognised in the statement of profit or loss and other comprehensive income.

For all loans, performing and credit-impaired, where the modification of terms did not result in the derecognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the provision for credit losses line in the statement of profit or loss and other comprehensive income.

Definition of default

The Society considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated.

This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganisation;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Society considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

Write-off policy

The Society writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the statement of profit or loss and other comprehensive income.

Statutory and other regulatory loan loss reserve requirements

Statutory and other regulatory loan loss reserve requirements that exceed the amounts determined under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits (note 20).

(h) Mortgage commitments

The Society's potential liability under mortgage commitments, that is, irrevocable commitments to make loans under mortgages, is reported as a liability in the statement of financial position. The Society has equal and offsetting claims against its customers, in the event of a call on these commitments, which are reported as an asset.

(i) Property, plant and equipment

Land is measured at historical cost. All property, plant and equipment are recorded at historical cost less accumulated depreciation and, if any, impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated on the straight-line method at rates estimated to write-down the depreciable amounts of the assets to their residual values over their expected useful lives, as follows:

Freehold buildings	40 years
Furniture, fixtures and equipment	10 years
Computer equipment	4 years
Office machines	5 years

The depreciation method, useful lives and residual values are reassessed at each reporting date.

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining profit or loss for the year. Repairs and renewals are charged off as expenses when the expenditure is incurred.

2. Summary of significant accounting policies (continued)

(j) Pension plan

The employees of the Society participate in the defined-benefit pension plan of the Society's parent company. The Society's contribution to the plan is at a fixed percentage of pensionable salaries. Once the contributions have been paid, the Society has no further legal or constructive obligations (note 24). Obligations for contributions to the plan are charged to the statement of profit or loss and other comprehensive income in the period to which they relate.

(k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash-equivalents include notes and coins on hand, unrestricted balances held with Bank of Jamaica, amounts due from other financial institutions, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value, and are used by the Society in the management of its short-term commitments, rather than for investment or other purposes.

Cash and cash-equivalents are measured at amortised cost.

(l) Related parties

Definition of related party:

A related party is a person or entity that is related to the Society ("reporting entity").

(a) A person or a close member of that person's family is related to the Society if that person:

  (i) has control or joint control over the Society;
  (ii) has significant influence over the Society; or
  (iii) is a member of the key management personnel of the Society or of a parent of the Society.

(b) An entity is related to the Society if any of the following conditions applies:

  (i) The entity and the Society are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) (One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Society or an entity related to the Society.

2. Summary of significant accounting policies (continued)

(l) Related parties (continued)

(b) An entity is related to the Society if any of the following conditions applies (continued):

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Society or to the parent of the Society.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

3. Critical accounting estimates and judgements in applying accounting policies

The Society makes estimates and assumptions that affect the amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements, and may be reported in the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated. The significant item most affected by assumptions and judgements is as follows:

Expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in notes 11(c) and 21(a), which also set out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increases in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Society in the above area is set out in notes 2(g), 11(c) and 21(a).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

4. Net interest income

	2022	2021
Interest income calculated using the effective interest method:		
Certificates of deposit with Bank of Jamaica	82,768	8,567
Loans	1,475,243	1,673,139
Resale agreements	2,696	170
Other	9,884	14,206
	1,570,591	1,696,082
Interest expense:		
Customers and other financial institutions	(36,022)	(138,805)
Net interest income	1,534,569	1,557,277

5. Fee and commission income

	2022	2021
Credit related fees	17,305	18,101
Retail banking fees	10,441	9,763
	27,746	27,864

6. Salaries, pension plan contributions and other staff benefits

	2022	2021
Wages and salaries	23,829	64,519
Statutory payroll contributions	2,194	3,714
Pension plan contributions and other staff benefits	175	4,985
	26,198	73,218

7. Expenses by nature

	2022	2021
Salaries, pension plan contribution and other staff benefits (note 6)	26,198	73,218
Property expenses, including depreciation	17,174	17,112
Systems related expenses	31,399	26,181
Transportation and communication	1,508	1,993
Marketing and advertising	-	65
Professional, legal and consulting fees	13,323	14,388
Technical and support services	18,282	19,542
Asset tax	46,986	54,187
Licencing and fees paid to regulators	4,810	5,432
Deposit insurance	16,075	18,344
Stationery	436	454
Brokerage commission (note 14 (a))	-	75,482
Other operating expenses	1,200	5,724
	177,391	312,122

(Expressed in thousands of Jamaican dollars unless otherwise stated)

8. Profit before taxation

In arriving at the profit before taxation, the following are among the items that have been charged:

	2022	2021
Audit fees	7,814	7,461
Depreciation (note 12)	1,210	1,715
Directors' fees	1,724	1,532

9. Taxation

(a) The charge is computed on the profit for the year as adjusted for tax purposes, and is made up as follows:

	2022	2021
Current income tax:		
Income tax at 30%	433,008	630,854
Deferred income tax (note 15)	19,655	(101,525)
	452,663	529,329

(b) Reconciliation of applicable tax charge to effective tax charge:

	2022	2021
Profit before taxation	1,461,896	1,710,243
Tax calculated at 30%	438,569	513,073
Expenses not deductible for tax purposes	15,738	18,843
Other charges and allowances	(1,644)	(2,587)
	452,663	529,329

10. Cash and cash equivalents

(a) Cash reserves at Bank of Jamaica represent funds which have been deposited at Bank of Jamaica [note 1(b)]. This amount is held under Section 43 of the Banking Services Act, 2014, substantially on a non-interest-bearing basis and is not available for investment or other use by the Society.

(b) The bank current account balance is held with the Society's parent, The Bank of Nova Scotia Jamaica Limited.

(c) Cash and cash equivalents are as follows:

	2022	2021
Cash resources	4,912,517	3,711,607
Less: amounts not considered as cash and cash equivalents		
Statutory reserves	(72,589)	(101,877)
Accrued interest	(5,109)	(1,257)
Allowances for credit losses	116	20
	4,834,935	3,608,493

(Expressed in thousands of Jamaican dollars unless otherwise stated)

10. Cash and cash equivalents (continued)

(c) Cash and cash equivalents are as follows (continued):

	2022	2021
Cash and cash equivalents is comprised of:		
Balances with Bank of Jamaica other than statutory reserves	1,483,990	1,480,751
Accounts with parent	3,356,054	2,128,999
Accrued interest	(5,109)	(1,257)
	4,834,935	3,608,493

11. Loans, net of allowance for expected credit losses

	2022	2021
Residential mortgages	17,899,822	20,399,731
Interest receivable	193,854	301,266
	18,093,676	20,700,997
Less: Allowance for expected credit losses [note 11(c)]	(429,048)	(470,748)
Loans, net allowance for credit losses	17,664,628	20,230,249

(a) The aging of the loans at the reporting date was as follows:

	2022	2021
Neither past due nor impaired	15,957,215	16,210,626
Past due but not impaired		
Past due 0-30 days	1,014,205	3,014,503
Past due 31-60 days	289,862	397,761
Past due 61-90 days	92,378	76,946
	1,396,445	3,489,210
Past due and impaired		
Past due more than 90 days	546,162	699,895
Interest receivable	193,854	301,266
Gross loan portfolio	18,093,676	20,700,997
Less: Allowance for expected credit losses [note 11(c)]	(429,048)	(470,748)
Loans, net allowance for credit losses	17,664,628	20,230,249

There are no financial assets other than those listed above that were individually impaired.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

11. Loans, net of allowance for expected credit losses (continued)

(b) Repossessed collateral:

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, repossessed properties are not utilised for business use. The Society has no repossessed collateral as at the reporting date.

(c) Allowance for expected credit losses:

The Society's allowance calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs.

Some of the key drivers include the following:

- Changes in risk ratings of the borrower or instrument reflecting changes in their credit quality;
- Changes in the volumes of transactions;
- Changes in the forward-looking macroeconomic environment reflected in the variables used in the models such as GDP growth, unemployment rates, commodity prices, and house price indices, which are most closely related with credit losses in the relevant portfolio;
- Changes in macroeconomic scenarios and the probability weights assigned to each scenario; and
- Borrower migration between the three stages which can result from changes to any of the above inputs and assumptions.

As a result of COVID-19, management considered the application of an overlay in respect of the computation of the ECL to take into account the potential impact of the pandemic on the macroeconomic indicators. In order to incorporate the forward-looking component of the ECL, macroeconomic variables, which are statistically significant and most correlated with the Society's Non-Performing Loans (NPLs) were selected. For the loan portfolio these include unemployment, GDP Growth and Inflation. The weighting for each variable was applied based on its ability to reflect the projected economic changes resulting from the pandemic.

The following table shows the movement in expected credit losses on loans and receivables during the year

	2022			
	Stage 1	Stage 2	Stage 3	Total
Allowance at beginning of the year	55,622	182,341	232,785	470,748
Provided during the year	(66,322)	(47,745)	87,274	(26,793)
Bad debts written off	-	-	(14,907)	(14,907)
Transfer to/(from) stages				
Stage 1	76,928	(54,467)	(22,461)	-
Stage 2	(4,879)	70,292	(65,413)	-
Stage 3	(118)	(29,445)	29,563	-
Allowance at end of year [note 21 (a)(iii)]	61,231	120,976	246,841	429,048
Provided during the year	(66,322)	(47,745)	87,274	(26,793)
Recoveries of bad debts	-	-	(50,575)	(50,575)
Expected credit losses reported in profit for the year	(66,322)	(47,745)	36,697	(77,368)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

11. Loans, net of allowance for expected credit losses (continued)

(c) Allowance for expected credit losses (continued):

	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance at beginning of the year	89,815	127,869	249,606	467,290
Provided during the year	(118,470)	85,462	101,052	68,044
Bad debts written off	-	-	(64,586)	(64,586)
Transfer to/(from) stages				
Stage 1	148,328	(14,064)	(134,264)	-
Stage 2	(59,316)	158,552	(99,236)	-
Stage 3	(4,735)	(175,478)	180,213	-
Allowance at end of year [note 21 (a)(iii)]	55,622	182,341	232,785	470,748
Provided during the year	(118,470)	85,462	101,052	68,044
Recoveries of bad debts	-	-	(11,027)	(11,027)
Expected credit losses reported in profit for the year	(118,470)	85,462	90,025	57,017

The total allowance for credit losses is made up as follows:

	2022	2021
Allowance based on IFRS [see (i) below]	429,048	470,748
Additional allowance based on BOJ regulations [see (ii) below]	77,598	-
	506,646	470,748

(i) This is the allowance based on the requirement of IFRS 9 *Financial Instruments.*

(ii) This represents the additional allowance to meet the Bank of Jamaica loan loss provisioning requirement. A non-distributable loan loss reserve was established to represent the excess of the provision required by BOJ over the IFRS 9 requirements (note 20).

(d) Collateral and other credit enhancements held against loans:

It is the Society's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered as collateral. Nevertheless, the collateral is an important mitigant of credit risk. A charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the Society may utilise the collateral as a source of repayment. In such cases the collateral is used to settle all debt obligations to the Society, and excess value is returned to the borrower.

The Society holds collateral against credits to borrowers primarily in the form of real estate. Estimates of fair values are based on the value of collateral assessed at the time of borrowing and are generally not updated except when credits to borrowers are individually assessed as impaired.

The estimated fair value of the collateral with enforceable legal right pursuant to the agreements for outstanding loans is $17,899,822 (2021: $20,399,731).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

11. Loans, net of allowance for expected credit losses (continued)

(e) Uncollected interest not accrued in the financial statements on impaired loans is estimated at $124,476 (2021: $156,818).

(f) The expected maturities of loans, net of allowances for expected credit losses are as follows:

	2022	2021
Within 3 months	19,757	118,867
3 months to 1 year	767,493	818,779
1 to 5 years	3,818,566	4,097,496
5 years and over	13,058,812	15,195,107
	17,664,628	20,230,249

12. Property, plant and equipment

	Freehold Land & Buildings	Furniture, Fixtures & Equipment	Computer Equipment	Office Machines	Total
Cost:					
October 31, 2020	32,261	16,924	11,035	1,048	61,268
Additions	-	-	718	-	718
October 31, 2021	32,261	16,924	11,753	1,048	61,986
Additions	-	-	359	-	359
October 31, 2022	32,261	16,924	12,112	1,048	62,345
Depreciation:					
October 31, 2020	15,197	16,103	10,231	1,048	42,579
Charge for the year	687	442	586	-	1,715
October 31, 2021	15,884	16,545	10,817	1,048	44,294
Charge for the year	687	56	467	-	1,210
October 31, 2022	16,571	16,601	11,284	1,048	45,504
Net book values:					
October 31, 2022	15,690	323	828	-	16,841
October 31, 2021	16,377	379	936	-	17,692
October 31, 2020	17,064	821	804	-	18,689

(Expressed in thousands of Jamaican dollars unless otherwise stated)

13. Deferred tax assets

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 30%.

The movement on the deferred tax account is as follows:

	2022	2021
Balance at beginning of year	76,787	(24,738)
Recognised in profit or loss [note 9(a)]	(19,655)	101,525
Recognised in other comprehensive income	(2)	-
Balance at end of year	57,130	76,787

Net deferred tax assets are attributable to the following items:

	2022	2021
Outstanding vacation leave	1,279	2,072
Accelerated tax depreciation	1,085	1,010
Allowance for loan impairment	54,766	73,705
	57,130	76,787

The deferred tax charged in the statement of profit or loss and other comprehensive income for the year comprises tax arising from the following temporary differences:

	2022	2021
Outstanding vacation leave	794	(17)
Accelerated tax depreciation	(75)	(219)
Allowance for loan impairment	18,938	(101,289)
	19,657	(101,525)

14. Deposits by the public

	2022	2021
Personal	6,684,815	7,476,433
Other	403,255	371,648
Accrued interest	6,681	13,655
	7,094,751	7,861,736

(Expressed in thousands of Jamaican dollars unless otherwise stated)

15. Amounts due to other financial institutions

	2022	2021
Deposits by parent and fellow subsidiaries	9,398	988,699
Accrued interest	-	4,454
	9,398	993,153

(a) On September 29, 2020, the Society entered into an agreement with the National Housing Trust for early extinguishment of its existing Joint Finance Mortgage programme liabilities at a discount. The first tranche, comprising liabilities with a book value of $3,430,015, was settled on September 30, 2020. The second tranche under the agreement comprising liabilities with book value of $1,764,635, was settled on November 2, 2020, resulting in a gain of $494,098. Arising from these transactions, brokerage commission totalling $Nil (2021: $75,482) was paid to Scotia Investment Jamaica Limited.

16. Other payables

	2022	2021
Accrued vacation (note 16(a))	4,262	6,908
Other accrued liabilities	25,168	46,128
	29,430	53,036

(a) The movement on accrued vacation leave included in other payables is as follows:

	2022	2021
At beginning of year	6,908	6,852
Provided during the year	4,262	6,908
Utilised during the year	(6,908)	(6,852)
At end of year	4,262	6,908

17. Share capital

	2022	2021
Authorised, issued and fully paid:		
70,000 (2021: 70,000) proprietary shares of $1,000 each	70,000	70,000

The Rules of the Society provide five classes of shares which the Directors may issue, but empower them to create additional classes of shares, and to issue shares at any value per share that they determine. At the reporting date, only proprietary shares have been issued. The proprietary shares are not withdrawable, and entitle the members holding them to:

- interest at such rates, payable at such intervals, as the Directors may determine;
- a pro rata share in the undistributed profits and the reserves (other than the doubtful debt appropriation account and the bonus account) of the Society;
- attend and vote at meetings of members of the Society, having one vote for each share held.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

18. Reserve fund

	2022	2021
As at October 31	229,250	229,250

Section 41 of the Banking Services Act, 2014 requires the Society to make a transfer of at least 10% of its net profit, depending on the circumstances, to the reserve fund until the amount in the fund is equal to the total of the amount paid up on its capital shares and the amount of its deferred shares. No transfers were made during the year as the Society has surpassed the required statutory level.

19. Retained earnings reserve

Transfers to retained earnings reserve are made at the discretion of the Board of Directors. During the financial year there was no transfer to the reserve (2021: $Nil).

20. Loan loss reserve

The loan loss reserve represents the excess of the BOJ loan loss provision over IFRS 9 requirements, and is non-distributable [see note 11(c)].

21. Financial risk management

The Society's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the Society by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

The Society's activities are principally related to the use of financial instruments. Therefore, this will involve analysis, evaluation and management of some degree of risk or a combination of risks. The Society's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Society manages risk through a framework of risk principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the activities of the business unit. The Society'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. Management regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Society's risk management framework.

21. Financial risk management (continued)

The Society manages its risk through the Asset and Liability Committee (ALCO), which carries out extensive research and monitors the price movement of securities on the local and international markets. ALCO has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors; it meets at least once monthly to review risks, evaluate performance and provide strategic direction.

It also reviews investments, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Society's investment and loan portfolios and that appropriate limits are being adhered to.

The most important types of risk for the Society are credit risk, market risk and liquidity risk.

(a) Credit risk:

(i) Management of credit risk

The Society takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred and expected to be incurred at the reporting date. However, significant negative changes in the economy, industry segment that represent a concentration in the Society's loan portfolio, or positions in tradable assets, could result in losses that are different from those provided for at the reporting date.

At a strategic level, the Society manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower, or group of borrowers, and industry segments. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Operationally, the exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. The principal collateral types for loans are charges over residential properties.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Society's policy requires the review of individual financial assets that are above specified thresholds at least annually or more regularly when individual circumstances require. Impairment allowances are consistent with policies noted in [note 2(g)].

21. Financial risk management (continued)

(a) Credit risk (continued):

(i) Management of credit risk (continued)

The assessment normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for:

(1) portfolios of homogenous assets; and

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

(ii) Mortgage commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Mortgage commitments which represent irrevocable assurances that the Society will make payments on behalf of a customer to complete a mortgage transaction, carry the same credit risk as loans.

(iii) Credit quality

In measuring credit risk at the counterparty level, the loans are risk-rated based on an internal scoring system which combines statistical analysis with credit officer judgement. Internal grades (IG) are used to differentiate the risk of default of the borrower, and fall within the following categories:

- Very low
- Low
- Medium
- High
- Very high
- Default

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(a) Credit risk (continued):

(iii) Credit quality (continued)

The following table sets out information about the credit risk and the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

Loans and notes receivable at amortised cost (note 11):

	2022			
	Stage 1	Stage 2	Stage 3	Total
Category of PD Grade				
Low	14,913,759	17,801	-	14,931,560
Medium	1,121,727	14,086	-	1,135,813
High	158,927	958,081	-	1,117,008
Very High	-	363,133	-	363,133
Subtotal: PD Grades (Advanced Models)	16,194,413	1,353,101	-	17,547,514
Default	-	-	546,162	546,162
Total	16,194,413	1,353,101	546,162	18,093,676
Expected credit loss allowance [note 11(c)]	(61,231)	(120,976)	(246,841)	(429,048)
Carrying Amounts	16,133,182	1,232,125	299,321	17,664,628

	2021			
	Stage 1	Stage 2	Stage 3	Total
Category of PD Grade				
Low	16,695,871	7,478	-	16,703,349
Medium	989,021	14,592	-	1,003,613
High	133,277	1,688,537	-	1,821,814
Very High	-	582,275	-	582,275
Subtotal: PD Grades (Advanced Models)	17,818,169	2,292,882	-	20,111,051
Loans not graded (Intermediate or simplified or gross-up)	(74,647)	(35,302)	-	(109,949)
Default	-	-	699,895	699,895
Total	17,743,522	2,257,580	699,895	20,700,997
Expected credit loss allowance [note 11(c)]	(55,622)	(182,341)	(232,785)	(470,748)
Carrying Amounts	17,687,900	2,075,239	467,110	20,230,249

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(a) Credit risk (continued):

(iii) Credit quality (continued)

Recovery/(expected credit loss) recognised in profit or loss during the year is summarised below:

	2022	2021
Loans	92,275	7,569
Bad debts written off	(14,907)	(64,586)
Customers' liabilities under mortgage commitments	-	148
Deposits with bank of Jamaica	(99)	(3)
	77,269	(56,872)

If the Society's rating scale was done using the *Bank of Jamaica Credit Classification, Provisioning and Non-Accrual Requirements*, the credit profile of the Society would be as follows:

Standard – loans where the financial condition of the borrower is in no way impaired, and appropriate levels of cash flows or income flows are available to meet debt payments.

Special mention – loans where credit is currently up to date and collateral values protect the Society's exposure. However, there exists evidence to suggest that certain factors could, in future, affect the borrower's ability to service the credit properly or impair the collateral.

Sub-standard – loans with well-defined credit weakness or weakness in the sector of the borrower such that cash flows are insufficient to service debt as arranged.

Doubtful – loans where collection of the debt in full is highly questionable or improbable.

Loss – loans considered uncollectible due to insolvency of the borrower. The borrower's financial position is insufficient to service or retire outstanding debt.

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31:

	2022	2021
BB to B -	1,483,874	1,480,731
Classified as follows:		
Cash resources:		
Deposits with Bank of Jamaica (note 10)	1,483,874	1,480,731

21. Financial risk management (continued)

(a) Credit risk (continued):

(iv) Maximum exposure to credit risk

The maximum exposure to credit risk is assessed without taking account of any collateral held or other credit enhancements. For the Society's financial assets, the exposure to credit risk equals their carrying amount. For mortgage commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

(b) Market risk

Market risk 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 arise from open positions in interest rate and currency, both of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices, such as interest rates and foreign exchange rates.

The market risks relevant to the Society are interest rate and foreign exchange risks, which are discussed below:

(i) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Society takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position, profit or loss and cash flows. Interest margins may increase, may decline, or create losses in the event that unexpected movements arise. The Society monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

THE SCOTIA JAMAICA BUILDING SOCIETY

Notes to the Financial Statements (Continued)
October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

The following table summarises carrying amounts of assets, liabilities and shareholders' equity, in order to arrive at the Society's interest rate gap based on the earlier of contractual repricing and maturity dates.

	2022						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	3,356,054	1,480,000	-	-	-	76,463	4,912,517
Loans, after allowance for impairment losses (1)	14,871,550	865,098	1,617,012	-	-	310,968	17,664,628
Other assets (2)	-	-	-	-	-	128,968	128,968
Total assets	18,227,604	2,345,098	1,617,012	-	-	516,399	22,706,113
Deposits by the public	3,696,884	1,395,689	1,266,886	728,611	-	6,681	7,094,751
Amounts due to other financial institutions	-	9,398	-	-	-	-	9,398
Other liabilities (2)	-	-	-	-	-	46,298	46,298
Shareholders' equity	-	-	-	-	-	15,555,666	15,555,666
Total liabilities and shareholders' equity	3,696,884	1,405,087	1,266,886	728,611	-	15,608,645	22,706,113
Total interest rate sensitivity gap	14,530,720	940,011	350,126	(728,611)	-	(15,092,246)	-
Cumulative gap	14,530,720	15,470,731	15,820,857	15,092,246	15,092,246	-	-

	2021						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	2,128,999	1,480,000	-	-	-	102,608	3,711,607
Loans, after allowance for impairment losses (1)	16,582,249	1,052,427	1,928,239	125,653	11,268	530,413	20,230,249
Other assets (2)	-	-	-	-	-	102,367	102,367
Total assets	18,711,248	2,532,427	1,928,239	125,653	11,268	735,388	24,044,223
Deposits by the public	3,833,883	1,645,800	1,603,210	765,188	-	13,655	7,861,736
Amounts due to other financial institutions	-	988,699	-	-	-	4,454	993,153
Other liabilities (2)	-	-	-	-	-	180,905	180,905
Shareholders' equity	-	-	-	-	-	15,008,429	15,008,429
Total liabilities and shareholders' equity	3,833,883	2,634,499	1,603,210	765,188	-	15,207,443	24,044,223
Total interest rate sensitivity gap	14,877,365	(102,072)	325,029	(639,535)	11,268	(14,472,055)	-
Cumulative gap	14,877,365	14,775,293	15,100,322	14,460,787	14,472,055	-	-

(1) This includes impaired loans.
(2) This includes non-financial instruments.

THE SCOTIA JAMAICA BUILDING SOCIETY

Notes to the Financial Statements (Continued)
October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity to interest rate movements:

The following table shows the potential impact on profit or loss and equity in the event of shifts in interest rates.

The changes in interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

	2022	2021
JMD Interest rates	increase/decrease by 450bps	increase/decrease by 200bps
USD Interest rates	increase/decrease by 250bps	increase/decrease by 400bps

	2022	2021
Effect on profit or loss	676,563	279,583
Effect on shareholders' equity	237,340	339,792

Average effective yields by the earlier of the contractual repricing and maturity dates:

	2022					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Average
	%	%	%	%	%	%
ASSETS						
Cash resources	0.35	7.00	-	-	-	2.39
Loans, after allowance for impairment losses (1)	7.10	11.85	9.65	-	-	7.57
LIABILITIES						
Deposits by the public (2)	0.19	0.51	0.67	0.45	-	0.37
Amounts due to other financial institutions (2)	0.00	5.50	-	-	-	5.50

	2021					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Average
	%	%	%	%	%	%
ASSETS						
Cash resources	0.35	2.00	-	-	-	1.03
Loans, after allowance for impairment losses (1)	7.18	11.91	9.74	8.71	10.58	7.70
LIABILITIES						
Deposits by the public (2)	0.17	1.58	1.07	0.59	-	0.69
Amounts due to other financial institutions (2)	-	3.00	-	-	-	2.99

(1) Yields are based on book values, net of allowances for credit losses.

(2) Yields are based on contractual interest rates.

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Notes to the Financial Statements (Continued)
October 31, 2022
(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk:

The Society takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The main currencies giving rise to this risk are the USD and GBP. The Society ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The table below summarises the exposure to foreign currency exchange risk:

	2022			
JMD Equivalent	JMD	USD	GBP	TOTAL
ASSETS				
Cash resources	4,902,441	8,292	1,784	4,912,517
Loans	17,664,628	-	-	17,664,628
Other assets	128,968	-	-	128,968
	22,696,037	8,292	1,784	22,706,113
LIABILITIES				
Deposits by the public	7,085,143	7,823	1,785	7,094,751
Amounts due to other financial institutions	9,398	-	-	9,398
Other liabilities	45,238	1,060	-	46,298
	7,139,779	8,883	1,785	7,150,447
NET POSITION	15,556,258	(591)	(1)	15,555,666

	2021			
JMD Equivalent	JMD	USD	GBP	TOTAL
ASSETS				
Cash resources	3,700,462	9,002	2,143	3,711,607
Loans	20,230,249	-	-	20,230,249
Other assets	102,367	-	-	102,367
	24,033,078	9,002	2,143	24,044,223
LIABILITIES				
Deposits by the public	7,850,567	9,025	2,144	7,861,736
Amounts due to other financial institutions	993,153	-	-	993,153
Other liabilities	180,905	-	-	180,905
	9,024,625	9,025	2,144	9,035,794
NET POSITION	15,008,453	(23)	(1)	15,008,429

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued):

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the following currencies at October 31 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis is performed on the same basis for 2021, analysing the market movements for exchange rates during the year. The strengthening of the JMD against the same currencies at 31 October would have had the equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

	2022	2021
USD	increase by/decrease by 2.86%	increase by/decrease by 6.00%
GBP	increase by/decrease by 11.24%	increase by/decrease by 8.25%

	2022	2021
Effect on profit or loss and shareholders' equity	(372)	(3)

The following significant exchange rates were applied during the period:

	Average rate		Reporting date spot rate	
	2022	2021	2022	2021
USD	153.43	149.60	153.16	154.67
GBP	191.39	180.99	175.74	211.41

There was no change to the Society's approach to measuring and managing market risks during the year.

(c) Liquidity risk

The Society is exposed to daily calls on its available cash resources from maturing deposits and loan disbursements. The Society does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Board of Directors approves the Society's liquidity and funding management policies and establishes limits to control the risk. The Society assesses the adequacy of its liquidity position by analysing its current liquidity position, present and anticipated funding requirements, and alternative sources of funds. This process includes:

- Projecting day-to-day cash flows for each major currency;

- Managing the concentration and profile of debt maturities;

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(c) Liquidity risk (continued)

- Monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption of cash flow;
- Monitoring liquidity ratios against internal and regulatory requirements; and
- Maintenance of liquidity and funding contingency plans.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Society. It is unusual for financial institutions to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Society and its exposure to changes in interest rates and exchange rates.

Undiscounted cash flows payable for financial liabilities

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) to settle the Society's financial liabilities, based on contractual repayment obligations. The Society expects that many depositors will not request repayment on the earliest date the Society could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

	2022					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities						
Deposits by the public	5,099,139	1,278,412	734,002	-	7,111,553	7,094,751
Amounts due to other financial institutions	9,398	-	-	-	9,398	9,398
Amount due to parent	16,868	-	-	-	-	16,868
Other payables	29,430	-	-	-	29,430	29,430
Total financial liabilities	5,254,835	1,278,412	734,002	-	7,150,381	7,150,447

	2021					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities						
Deposits by the public	5,997,865	912,121	777,687	777,687	8,465,360	7,861,736
Amounts due to other financial institutions	272,489	723,879	-	-	996,368	993,153
Amount due to parent	1,197	-	-	-	-	1,197
Other payables	53,036	-	-	-	53,036	53,036
Total financial liabilities	6,324,587	1,636,000	777,687	777,687	9,514,764	8,909,122

There was no change to the Society's approach to measuring and managing liquidity risk during the year.

22. Fair values of financial instruments

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Society has access at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets held and liabilities issued by the Society.

Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date.

The Society measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: Significant market-observable inputs to models, other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuations that require significant use of unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observation data and the observation inputs have a significant effect on the instrument valuation. This category includes instruments that are valued based on prices for similar instruments for which significant observation adjustments or assumptions are to reflect differences between the instruments.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;

(ii) The fair value of time deposits and savings deposits, with no specific maturity is assumed to be the amount payable on demand at the reporting date;

(iii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts, as they are frequently repriced to current market rates; and

(iv) The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. If the difference is significant, the fair value is computed by discounting future cash flows from the loans using the market interest rates at the year-end. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provision for credit losses from both book and fair values.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

22. Fair values of financial instruments (continued)

Accounting classifications and fair values:

The following tables present the fair value of financial instruments that are not carried at fair value based on the above-mentioned valuation methods and assumptions. The table excludes financial instruments not measured at fair value but for which carrying amounts are reasonable approximation of fair values.

	2022			
	Carrying amount			Fair value
	Loans and receivables	Other financial liabilities	Total	Level 3
Financial asset not measured at fair value:				
Loans, net of allowances for expected credit losses	17,664,628	-	17,664,628	17,767,536

	2021			
	Carrying amount			Fair value
	Loans and receivables	Other financial liabilities	Total	Level 3
Financial asset not measured at fair value:				
Loans, net of allowances for expected credit losses	20,230,249	-	20,230,249	20,532,667

23. Capital risk management

Capital risk is the risk that the Society fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of depositors, and monitor the Society closely to ensure that it is satisfactorily managing its fiduciary responsibility to the depositors. At the same time, the regulators are also interested in ensuring that the Society maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The Society manages its capital resources according to the following objectives:

- To comply with the capital requirements established by the regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors and shareholders;
- To provide adequate returns to shareholders by pricing investment and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Society's operations.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

23. Capital risk management (continued)

The Society is regulated by the Bank of Jamaica, which sets and monitors capital adequacy requirements. Required capital adequacy information is filed with the regulators at least quarterly.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings.

2. Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on property, plant and equipment.

The risk weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral and guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios for the Society. During the year, the Society complied with the only externally imposed capital requirement to which it is subject, that is, that imposed by Bank of Jamaica.

	2022	2021
Tier 1 capital	5,250,000	5,250,000
Tier 2 capital	-	-
Total regulatory capital	5,250,000	5,250,000
Risk weighted assets		
Statement of financial position	9,787,977	10,912,647
Actual regulatory capital to risk weighted assets (%)	53.6	48.1
Regulatory requirement (%)	10	10

There was no change to the Society's approach to measuring and managing capital risk during the year.

24. Pension scheme

(a) The employees of the Society participate in The Bank of Nova Scotia Jamaica Limited's defined-benefit pension plan, the assets of which are held independently of the Bank's assets in a separate fund administered by Trustees.

The fund established under the plan is valued annually by independent actuaries using the Projected Unit Credit Method.

The Society contributes at a fixed rate of 2% of pensionable salary. Any funding deficiency of the plan is absorbed by the Bank. Accordingly, the Society is not entitled to any surplus that may arise.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

24. Pension scheme (continued)

(b) Benefits to members are based on the final pensionable salary (the average of the best three consecutive years' remuneration, with no salary cap), as follows:

(i) Per year of contributory service - 1¾% of final pensionable salary;

(ii) Per year of non-contributory service:

- 1½% of final pensionable salary for employees who started to contribute on November 1, 1971; and
- 1¼% of final pensionable salary for employees who started to contribute after November 1, 1971.

(iii) Maximum pension is the lesser of 70% of the average of final pensionable salary and ⅔ of salary at retirement.

(c) The employees contribute 3% of salary up to $250 per annum, plus 6% of salary thereafter.

25. Related party transactions and balances

The Society is controlled by The Bank of Nova Scotia Jamaica Limited, which is in turn a 100% subsidiary of Scotia Group Jamaica Limited.

Parties are considered to be related if one party has the ability to control or exercise significant influence over, or be controlled and significantly influenced by, the other party or both parties are subject to common control or significant influence. A number of banking transactions are entered into with related parties, in the normal course of business. These include loans, deposits and investment transactions.

Related party transactions with the parent company include management fees, interest income and interest expense. There are no related party transactions with the ultimate parent company.

No provisions have been recognised in respect of loans made to related parties.

The amounts of related party transactions, outstanding balances at the year end, and related income and expenses for the year are as follows:

	Parent company	Fellow subsidiaries	Directors and key management personnel	Total 2022	Total 2021
Loans					
Balance at October 31	-	-	79,779	79,779	93,563
Interest income earned	-	-	8,806	8,806	10,685
Deposits					
Balance at October 31	-	(9,398)	(11,375)	(20,773)	(1,007,088)
Interest expense on deposits	-	(3,640)	(28)	(3,668)	(87,796)
Securities purchased under resale agreements					
Interest earned	2,696	-	-	2,696	170

THE SCOTIA JAMAICA BUILDING SOCIETY

Notes to the Financial Statements (Continued)
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25. Related party transactions and balances (continued)

The amounts of related party transactions, outstanding balances at the year end, and related income and expenses for the year are as follows (continued):

	Parent company	Fellow subsidiaries	Directors and key management personnel	Total 2022	Total 2021
Amounts due from parent					
Balance at October 31	(16,868)	-	-	(16,868)	(1,197)
Bank account with parent					
Balance at October 31	3,356,054	-	-	3,356,054	2,128,999
Interest income earned	9,884	-	-	9,884	14,205
Other					
Management fees and Other fees	(31,398)	(19,638)	(1,724)	(52,760)	(124,404)
Key management compensation:					
Salaries and other short-term benefits	-	-	(873)	(873)	(25,226)

26. Dividends

(a) Paid to stockholders

	2022	2021
In respect of 2022:		
$2,200 per share	154,000	-
$2,200 per share	154,000	-
$2,200 per share	154,000	-
	462,000	-

(b) Proposed

At the Board of Directors' meeting held on December 13, 2022 a dividend in respect of 2022 of $2,200 per share, amounting to $154 million (2021: $Nil) was proposed. Stockholders' equity for the current financial year does not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the ensuing financial year.

27. Litigation and contingent liabilities

The Society is subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, it is probable that a payment will be made by the Society, and the amount can be reasonably estimated.

In respect of claims asserted against the Society which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Society which is immaterial to both financial position and results of operations.