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INDEPENDENT AUDITORS' REPORT

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Financial Statements

We have audited the financial statements, comprising the separate financial statements of The Bank of Nova Scotia Jamaica Limited ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), set out on pages 3 to 95, which comprise the Group's and Bank's statements of financial position as at October 31, 2016, the Group's and Bank's statements of revenue and expenses, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence relating to the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including our assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.



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INDEPENDENT AUDITORS' REPORT

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Financial Statements, (continued)

Auditors' Responsibility (continued)

In making those risk assessments, we consider internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank as at October 31, 2016, and of the Group's and the Bank's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

Report on additional matters as required by The Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

Chartered Accountants
Kingston, Jamaica

December 7, 2016

R. Tarun Handa
Cynthia L. Lawrence
Rajan Trehan
Norman O. Rainford
Nigel R. Chambers

W. Gihan C. De Mel
Nyssa A. Johnson
Wilbert A. Spence
Rochelle N. Stephenson

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Revenue and Expenses****Year ended October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|--|-------|---------------------|---------------------|
| Net interest income and other revenue | | | |
| Net interest income | | | |
| Interest from loans and deposits with banks | | 21,600,171 | 20,595,393 |
| Interest from securities | | <u>5,659,508</u> | <u>5,850,213</u> |
| Total interest income | 6 | 27,259,679 | 26,445,606 |
| Interest expense | 6 | <u>(3,834,578)</u> | <u>(4,381,004)</u> |
| Net interest income | | 23,425,101 | 22,064,602 |
| Impairment losses on loans | 23 | <u>(1,371,874)</u> | <u>(1,322,892)</u> |
| Net interest income after impairment losses on loans | | <u>22,053,227</u> | <u>20,741,710</u> |
| Other revenue | | | |
| Fee and commission income | 7 | 11,232,289 | 9,792,738 |
| Fee and commission expense | 7 | <u>(5,473,308)</u> | <u>(4,402,849)</u> |
| Net fee and commission income | | 5,758,981 | 5,389,889 |
| Net gains on foreign currency activities | 8 | 2,670,815 | 1,439,474 |
| Insurance revenue | 9 | 2,369,309 | 3,203,932 |
| Other revenue | 10 | - | 7,513 |
| Net (losses)/gains on financial assets | | <u>(185,361)</u> | <u>17,190</u> |
| | | <u>10,613,744</u> | <u>10,057,998</u> |
| | | <u>32,666,971</u> | <u>30,799,708</u> |
| Expenses | | | |
| Salaries, pension contributions and other staff benefits | 11 | 9,485,877 | 9,619,047 |
| Property expenses, including depreciation | | 1,908,528 | 1,938,995 |
| Asset tax | | 819,864 | 1,138,017 |
| Other operating expenses | | <u>6,553,119</u> | <u>6,265,714</u> |
| | 12 | <u>18,767,388</u> | <u>18,961,773</u> |
| Profit before taxation | 13 | 13,899,583 | 11,837,935 |
| Taxation | 14 | <u>(4,511,557)</u> | <u>(3,558,449)</u> |
| Profit for the year | | <u>9,388,026</u> | <u>8,279,486</u> |
| Earnings per share | 15 | <u>3.21</u> | <u>2.83</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Comprehensive Income
Year ended October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|---|--------------|-------------------|---------------------|
| Profit for the year | | <u>9,388,026</u> | <u>8,279,486</u> |
| Other comprehensive income: | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurement of defined benefits plan | 28 | (251,970) | 5,665,043 |
| Taxation | 34 | <u>83,990</u> | <u>(1,890,379)</u> |
| | | <u>(167,980)</u> | <u>3,774,664</u> |
| Items that are or may be reclassified to profit or loss: | | | |
| Unrealised gains/(losses) on available-for-sale financial assets | | 736,834 | (9,853) |
| Realised losses/(gains) on available-for-sale financial assets transferred to profit | | <u>5,337</u> | <u>(25,688)</u> |
| | | 742,171 | (35,541) |
| Taxation | 34 | <u>(207,483)</u> | <u>13,220</u> |
| | | <u>534,688</u> | <u>(22,321)</u> |
| Other comprehensive income, net of tax | | <u>366,708</u> | <u>3,752,343</u> |
| Total comprehensive income | | <u>9,754,734</u> | <u>12,031,829</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Financial Position
October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|---|-------|--------------------|--------------------|
| ASSETS | | | |
| Cash resources | | | |
| Cash and balances at Bank of Jamaica | 16 | 38,871,816 | 31,555,505 |
| Government and bank notes other than Jamaican | 17 | 839,283 | 596,190 |
| Due from other banks | 18 | 32,857,698 | 24,012,549 |
| Accounts with parent and fellow subsidiaries | 19 | <u>22,840,772</u> | <u>9,824,636</u> |
| | | <u>95,409,569</u> | <u>65,988,880</u> |
| Financial assets at fair value through profit or loss | 24 | <u>200,058</u> | <u>384,895</u> |
| Government securities purchased under resale agreements | 20 | <u>3,505,818</u> | <u>2,937,121</u> |
| Pledged assets | 21 | <u>890,898</u> | <u>7,422,726</u> |
| Loans, after allowance for impairment losses | 22 | <u>166,153,584</u> | <u>153,996,529</u> |
| Investment securities | 24 | <u>106,172,035</u> | <u>95,274,688</u> |
| Other assets | | | |
| Customers' liabilities under acceptances, guarantees and letters of credit | | 6,329,288 | 7,213,415 |
| Taxation recoverable | | 1,007,703 | 1,594,706 |
| Sundry assets | 25 | 1,918,658 | 1,364,836 |
| Property, plant and equipment | 26 | 5,456,239 | 5,308,335 |
| Intangible assets | 27 | 147,267 | 91,746 |
| Retirement benefits asset | 28 | <u>17,366,400</u> | <u>16,690,244</u> |
| | | <u>32,225,555</u> | <u>32,263,282</u> |
| | | <u>404,557,517</u> | <u>358,268,121</u> |

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

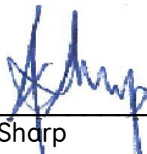
THE BANK OF NOVA SCOIA JAMAICA LIMITED**Consolidated Statement of Financial Position (Continued)**
October 31, 2016*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|--|-------|--------------------|--------------------|
| LIABILITIES | | | |
| Deposits by the public | 29 | 248,416,381 | 209,461,602 |
| Due to other banks and financial institutions | 30 | 5,904,814 | 5,254,508 |
| Due to parent and ultimate parent company | 31 | 7,663,720 | 6,858,468 |
| Due to fellow subsidiaries | 32 | <u>6,466,224</u> | <u>5,363,461</u> |
| | | <u>268,451,139</u> | <u>226,938,039</u> |
| Other liabilities | | | |
| Cheques and other instruments in transit | | 1,678,684 | 1,814,888 |
| Acceptances, guarantees and letters of credit | | 6,329,288 | 7,213,415 |
| Securities sold under repurchase agreements | | - | 5,006,853 |
| Other liabilities | 33 | 5,149,326 | 4,530,638 |
| Taxation payable | | 1,645,636 | 1,185,689 |
| Deferred tax liabilities | 34 | 5,713,063 | 5,529,310 |
| Retirement benefits obligations | 28 | <u>3,191,557</u> | <u>2,735,526</u> |
| | | <u>23,707,554</u> | <u>28,016,319</u> |
| Policyholders' liabilities | 35 | <u>44,764,585</u> | <u>43,112,279</u> |
| EQUITY | | | |
| Share capital | 36 | 2,927,232 | 2,927,232 |
| Reserve fund | 37 | 3,159,866 | 3,158,481 |
| Retained earnings reserve | 38 | 25,952,091 | 21,752,091 |
| Cumulative remeasurement gains from available-for-sale securities | 39 | 676,371 | 141,683 |
| Capital reserve | 40 | 9,383 | 9,383 |
| Loan loss reserve | 41 | 3,132,841 | 3,193,457 |
| Other reserves | 42 | - | 2,928 |
| Unappropriated profits | | <u>31,776,455</u> | <u>29,016,229</u> |
| | | <u>67,634,239</u> | <u>60,201,484</u> |
| | | <u>404,557,517</u> | <u>358,268,121</u> |

The financial statements on pages 3 to 95 were approved for issue by the Board of Directors on December 7, 2016 and signed on its behalf by:




Jeffrey M. Hall Director



Jacqueline T. Sharp Director



Anthony V. Chang Director



Julie Thompson-James Secretary

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

**Consolidated Statement of Changes in Stockholders' Equity
Year ended October 31, 2016**

(Expressed in thousands of Jamaican dollars unless otherwise stated)

| | <u>Notes</u> | <u>Share capital</u> | <u>Reserve fund</u> | <u>Retained earnings reserve</u> | <u>Cumulative remeasurement result from available for sale financial assets</u> | <u>Capital reserve</u> | <u>Loan loss reserve</u> | <u>Other reserves</u> | <u>Unappropriated profits</u> | <u>Total</u> |
|--|--------------|-------------------------|-------------------------|----------------------------------|---|------------------------|--------------------------|-----------------------|-------------------------------|--------------------------|
| Balances at October 31, 2014 | | <u>2,927,232</u> | <u>3,158,481</u> | <u>17,752,091</u> | <u>164,004</u> | <u>9,383</u> | <u>3,190,968</u> | <u>2,928</u> | <u>20,964,568</u> | <u>48,169,655</u> |
| Profit for the year | | - | - | - | - | - | - | - | 8,279,486 | 8,279,486 |
| Other comprehensive income: | | | | | | | | | | |
| Remeasurement of defined benefits asset plan/obligations | | - | - | - | - | - | - | - | 3,774,664 | 3,774,664 |
| Unrealised losses on available-for-sale securities, net of taxes | | - | - | - | (5,288) | - | - | - | - | (5,288) |
| Realised gains on available-for-sale securities, net of taxes | | - | - | - | (17,033) | - | - | - | - | (17,033) |
| Total other comprehensive income | | - | - | - | (22,321) | - | - | - | 3,774,664 | 3,752,343 |
| Total comprehensive income | | - | - | - | (22,321) | - | - | - | 12,054,150 | 12,031,829 |
| Transfer to retained earnings reserve | | - | - | 4,000,000 | - | - | - | - | (4,000,000) | - |
| Transfer to loan loss reserve | | - | - | - | - | - | 2,489 | - | (2,489) | - |
| Net movement for the year | | - | - | 4,000,000 | - | - | 2,489 | - | (4,002,489) | - |
| Balances at October 31, 2015 | | <u>2,927,232</u> | <u>3,158,481</u> | <u>21,752,091</u> | <u>141,683</u> | <u>9,383</u> | <u>3,193,457</u> | <u>2,928</u> | <u>29,016,229</u> | <u>60,201,484</u> |
| Profit for the year | | - | - | - | - | - | - | - | 9,388,026 | 9,388,026 |
| Other comprehensive income: | | | | | | | | | | |
| Remeasurement of defined benefits asset plan/obligations | | - | - | - | - | - | - | - | (167,980) | (167,980) |
| Unrealised gains on available-for-sale securities, net of taxes | | - | - | - | 531,323 | - | - | - | - | 531,323 |
| Realised losses on available-for-sale securities, net of taxes | | - | - | - | 3,365 | - | - | - | - | 3,365 |
| Total other comprehensive income | | - | - | - | 534,688 | - | - | - | (167,980) | 366,708 |
| Total comprehensive income | | - | - | - | 534,688 | - | - | - | 9,220,046 | 9,754,734 |
| Transfer to retained earnings reserve | | - | - | 4,200,000 | - | - | - | - | (4,200,000) | - |
| Transfer to loan loss reserve | | - | - | - | - | - | (60,616) | - | 60,616 | - |
| Movement in reserve due to the dissolution of subsidiary | | - | 1,385 | - | - | - | - | (2,928) | - | (1,543) |
| Dividends paid | 49 | - | - | - | - | - | - | - | (2,320,436) | (2,320,436) |
| Net movement | | - | 1,385 | 4,200,000 | - | - | (60,616) | (2,928) | (6,459,820) | (2,321,979) |
| Balances at October 31, 2016 | | <u>2,927,232</u> | <u>3,159,866</u> | <u>25,952,091</u> | <u>676,371</u> | <u>9,383</u> | <u>3,132,841</u> | <u>-</u> | <u>31,776,455</u> | <u>67,634,239</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Cash Flows**
Year ended October 31, 2016*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|---|-------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 9,388,026 | 8,279,486 |
| Adjustments for: | | | |
| Taxation charge | 14 | 4,511,557 | 3,558,449 |
| Depreciation | 26 | 497,867 | 503,891 |
| Amortisation of intangible assets | 27 | 2,184 | 2,504 |
| Impairment allowances on loans | 23 | 2,859,748 | 2,739,480 |
| Gain on sale of property, plant and equipment and intangible assets | 10 | - | (7,513) |
| Write-offs of property, plant and equipment | 26 | - | 3,494 |
| Increase in retirement benefit assets/obligations | 11 | <u>(387,943)</u> | <u>42,088</u> |
| | | 16,871,439 | 15,121,879 |
| Interest income | 6 | (27,259,679) | (26,445,606) |
| Interest expense | 6 | <u>3,834,578</u> | <u>4,381,004</u> |
| | | (6,553,662) | (6,942,723) |
| Changes in operating assets and liabilities | | | |
| Loans | | (14,988,127) | (11,304,998) |
| Deposits by the public | | 38,934,104 | 18,704,694 |
| Policyholders' liabilities | | 1,652,306 | (197,292) |
| Sundry assets, net | | (554,041) | (230,389) |
| Other liabilities, net | | 617,362 | 877,755 |
| Due to parent company and fellow subsidiaries | | 1,930,540 | 628,040 |
| Due from other banks | | - | 1,529,389 |
| Accounts with parent and fellow subsidiaries | | 4,549,719 | (1,867,412) |
| Taxation recoverable | | 587,003 | (467,955) |
| Due to other banks and financial institutions | | 633,040 | 656,535 |
| Deposit with Bank of Jamaica maturing after ninety days | | (4,317,480) | 1,305,000 |
| Statutory reserves at Bank of Jamaica | | 1,360,351 | (2,757,538) |
| Securities sold under repurchase agreements | | (5,000,000) | (3,498,825) |
| Retirement benefits asset /obligations | | <u>(84,152)</u> | <u>(60,615)</u> |
| | | 18,766,963 | (3,626,334) |
| Interest received | | 27,317,125 | 26,445,619 |
| Interest paid | | (3,826,015) | (4,484,311) |
| Taxation paid | | <u>(3,991,350)</u> | <u>(2,844,774)</u> |
| Net cash provided by operating activities | | <u>38,266,723</u> | <u>15,490,200</u> |
| Cash flows from investing activities | | | |
| Investment securities | | (10,000,736) | (24,837,406) |
| Pledged assets | | 6,491,285 | 4,532,314 |
| Government securities purchased under repurchase agreements | | - | 179,878 |
| Proceeds of sale of property, plant and equipment | | - | 9,013 |
| Purchase of property, plant and equipment | 26 | (645,771) | (570,675) |
| Purchase of intangible assets | 27 | <u>(57,705)</u> | <u>(21,487)</u> |
| Net cash used in investing activities | | <u>(4,212,927)</u> | <u>(20,708,363)</u> |
| Net cash flows from operating and investing activities (carried forward to page 9) | | | |
| | | <u>34,053,796</u> | <u>(5,218,163)</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Cash Flows (Continued)****Year ended October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|---|--------------|---------------------|---------------------|
| Cash flows from operating and investing activities (brought forward from page 8) | | <u>34,053,796</u> | <u>(5,218,163)</u> |
| Cash flows from financing activity | | | |
| Dividends paid | 49 | <u>(2,320,436)</u> | <u>-</u> |
| Effect of exchange rate changes on cash and cash equivalents | | <u>1,429,056</u> | <u>1,513,333</u> |
| Net increase/(decrease) in cash and cash equivalents | | 33,162,416 | (3,704,830) |
| Cash and cash equivalents at beginning of year | | <u>36,573,234</u> | <u>40,278,064</u> |
| Cash and cash equivalents at end of year | 17 | <u>69,735,650</u> | <u>36,573,234</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Revenue and Expenses****Year ended October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|--|-------|-------------------|-------------------|
| Net interest income and other revenue | | | |
| Net interest income | | | |
| Interest from loans and deposits with banks | | 19,050,699 | 18,110,775 |
| Income from securities | | <u>2,245,957</u> | <u>2,367,028</u> |
| Total interest income | 6 | 21,296,656 | 20,477,803 |
| Interest expense | 6 | (1,612,241) | (2,231,353) |
| Net interest income | | 19,684,415 | 18,246,450 |
| Impairment losses on loans | 23 | (1,323,919) | (1,277,495) |
| Net interest income after impairment losses on loans | | <u>18,360,496</u> | <u>16,968,955</u> |
| Other income | | | |
| Fee and commission income | 7 | 10,997,634 | 9,561,621 |
| Fee and commission expense | 7 | (5,473,308) | (4,402,849) |
| Net fee and commission income | | 5,524,326 | 5,158,772 |
| Net gains on foreign currency activities | 8 | 2,412,833 | 1,437,816 |
| Other revenue | 10 | 3,934,557 | 1,210,604 |
| Net (losses)/gains on financial assets | | (32,603) | 31,121 |
| | | <u>11,839,113</u> | <u>7,838,313</u> |
| | | <u>30,199,609</u> | <u>24,807,268</u> |
| Expenses | | | |
| Salaries, pension contributions and other staff benefits | 11 | 8,913,116 | 8,925,797 |
| Property expenses, including depreciation | | 1,814,489 | 1,853,891 |
| Asset tax | | 636,085 | 570,939 |
| Other operating expenses | | <u>5,925,840</u> | <u>5,661,325</u> |
| | 12 | <u>17,289,530</u> | <u>17,011,952</u> |
| Profit before taxation | 13 | 12,910,079 | 7,795,316 |
| Taxation | 14 | (3,139,074) | (2,302,476) |
| Profit for the year | | <u>9,771,005</u> | <u>5,492,840</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Comprehensive Income
Year ended October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|---|--------------|-------------------|--------------------|
| Profit for the year | | <u>9,771,005</u> | <u>5,492,840</u> |
| Other comprehensive income: | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurement of defined benefits plans | 28 | (251,970) | 5,665,043 |
| Taxation | 34 | <u>83,990</u> | <u>(1,890,379)</u> |
| | | <u>(167,980)</u> | <u>3,774,664</u> |
| Items that are or may be reclassified to profit or loss | | | |
| Unrealised gains/(losses) on available-for-sale financial assets | | 334,338 | (87,689) |
| Realised losses/(gains) on available-for-sale financial assets transferred to profit | | <u>5,185</u> | <u>(26,197)</u> |
| | | 339,523 | (113,886) |
| Taxation | 34 | <u>(106,741)</u> | <u>53,243</u> |
| | | <u>232,782</u> | <u>(60,643)</u> |
| Other comprehensive income, net of tax | | <u>64,802</u> | <u>3,714,021</u> |
| Total comprehensive income | | <u>9,835,807</u> | <u>9,206,861</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Financial Position****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

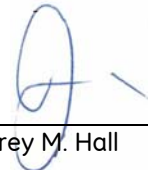
| | Notes | 2016 | 2015 |
|--|-------|--------------------|--------------------|
| ASSETS | | | |
| Cash resources | | | |
| Cash and balances at Bank of Jamaica | 16 | 35,867,980 | 28,422,726 |
| Government and bank notes other than Jamaican | 17 | 839,283 | 596,190 |
| Due from other banks | 18 | 32,825,516 | 23,926,328 |
| Accounts with parent and fellow subsidiaries | 19 | <u>22,840,772</u> | <u>9,824,636</u> |
| | | <u>92,373,551</u> | <u>62,769,880</u> |
| Financial assets at fair value through profit or loss | 24 | <u>36,482</u> | <u>70,188</u> |
| Government securities purchased under resale agreements | 20 | <u>2,703,520</u> | <u>2,037,544</u> |
| Pledged assets | 21 | <u>1,851,183</u> | <u>8,017,272</u> |
| Loans, after allowance for impairment losses | 22 | <u>139,680,666</u> | <u>130,578,409</u> |
| Investment securities | 24 | <u>54,984,119</u> | <u>46,889,833</u> |
| Investment in subsidiaries | | <u>220,000</u> | <u>242,093</u> |
| Other assets | | | |
| Customers' liabilities under acceptances, guarantees and letters of credit | | 5,527,652 | 6,600,489 |
| Taxation recoverable | | 336,179 | 395,768 |
| Sundry assets | 25 | 1,915,785 | 1,361,511 |
| Property, plant and equipment | 26 | 5,422,078 | 5,263,931 |
| Intangible assets | 27 | 68,137 | 40,323 |
| Retirement benefits asset | 28 | <u>17,366,400</u> | <u>16,690,244</u> |
| | | <u>30,636,231</u> | <u>30,352,266</u> |
| | | <u>322,485,752</u> | <u>280,957,485</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Financial Position (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*


| | Notes | 2016 | 2015 |
|--|-------|--------------------|--------------------|
| LIABILITIES | | | |
| Deposits by the public | 29 | 239,209,213 | 200,923,013 |
| Due to other banks and financial institutions | 30 | 1,129,665 | 1,111,425 |
| Due to parent and ultimate parent company | 31 | 7,663,720 | 6,858,468 |
| Due to subsidiaries | 32 | 821,095 | 709,921 |
| Due to fellow subsidiaries | 32 | <u>3,455,869</u> | <u>4,526,341</u> |
| | | <u>252,279,562</u> | <u>214,129,168</u> |
| Other liabilities | | | |
| Cheques and other instruments in transit | | 1,736,695 | 1,854,588 |
| Acceptances, guarantees and letters of credit | | 5,527,652 | 6,600,489 |
| Securities sold under repurchase agreements | | 913,049 | 5,568,900 |
| Other liabilities | 33 | 4,985,239 | 4,356,262 |
| Taxation payable | | 1,379,836 | 839,444 |
| Deferred tax liabilities | 34 | 5,263,108 | 5,179,425 |
| Retirement benefits obligations | 28 | <u>3,191,557</u> | <u>2,735,526</u> |
| | | <u>22,997,136</u> | <u>27,134,634</u> |
| EQUITY | | | |
| Share capital | 36 | 2,927,232 | 2,927,232 |
| Reserve fund | 37 | 2,930,616 | 2,930,616 |
| Retained earnings reserve | 38 | 21,601,341 | 17,601,341 |
| Cumulative remeasurement result from available-for-sale securities | 39 | 146,206 | (86,576) |
| Capital reserve | 40 | 42,087 | 42,087 |
| Loan loss reserve | 41 | 2,674,162 | 2,795,479 |
| Unappropriated profits | | <u>16,887,410</u> | <u>13,483,504</u> |
| | | <u>47,209,054</u> | <u>39,693,683</u> |
| | | <u>322,485,752</u> | <u>280,957,485</u> |

The financial statements on pages 3 to 95 were approved for issue by the Board of Directors on December 7, 2016 and signed on its behalf by:


 _____ Director
 Jeffrey M. Hall


 _____ Director
 Jacqueline T. Sharp


 _____ Director
 Anthony V. Chang


 _____ Secretary
 Julie Thompson-James

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

**Statement of Changes in Stockholders' Equity
Year ended October 31, 2016**

(Expressed in thousands of Jamaican dollars unless otherwise stated)

| | <u>Notes</u> | <u>Share capital</u> | <u>Reserve fund</u> | <u>Retained earnings reserve</u> | <u>Cumulative remeasurement result from available for sale financial assets</u> | <u>Capital reserve</u> | <u>Loan loss reserve</u> | <u>Unappropriated profits</u> | <u>Total</u> |
|--|--------------|-------------------------|-------------------------|----------------------------------|---|------------------------|--------------------------|-------------------------------|--------------------------|
| Balances at October 31, 2014 | | <u>2,927,232</u> | <u>2,930,616</u> | <u>13,601,341</u> | <u>(25,933)</u> | <u>42,087</u> | <u>2,712,229</u> | <u>8,299,250</u> | <u>30,486,822</u> |
| Profit for the year | | - | - | - | - | - | - | 5,492,840 | 5,492,840 |
| Other comprehensive income: | | | | | | | | | |
| Remeasurement of defined benefits asset/obligation, net of taxes | | - | - | - | - | - | - | 3,774,664 | 3,774,664 |
| Unrealised losses on available-for-sale securities, net of taxes | | - | - | - | (43,178) | - | - | - | (43,178) |
| Realised gains on available-for-sale securities transferred, net of taxes | | - | - | - | (17,465) | - | - | - | (17,465) |
| Total other comprehensive income | | - | - | - | (60,643) | - | - | 3,774,664 | 3,714,021 |
| Total comprehensive income | | - | - | - | (60,643) | - | - | 9,267,504 | 9,206,861 |
| Transfer to retained earnings reserve | | - | - | 4,000,000 | - | - | - | (4,000,000) | - |
| Transfer to loan loss reserve | | - | - | - | - | - | 83,250 | (83,250) | - |
| Net movement for the year | | - | - | 4,000,000 | - | - | 83,250 | (4,083,250) | - |
| Balances at October 31, 2015 | | <u>2,927,232</u> | <u>2,930,616</u> | <u>17,601,341</u> | <u>(86,576)</u> | <u>42,087</u> | <u>2,795,479</u> | <u>13,483,504</u> | <u>39,693,683</u> |
| Profit for the year | | - | - | - | - | - | - | 9,771,005 | 9,771,005 |
| Other comprehensive income: | | | | | | | | | |
| Remeasurement of defined benefits asset/obligation | | - | - | - | - | - | - | (167,980) | (167,980) |
| Unrealised gains on available-for-sale securities, net of taxes | | - | - | - | 229,325 | - | - | - | 229,325 |
| Realised losses on available-for-sale securities transferred, net of taxes | | - | - | - | 3,457 | - | - | - | 3,457 |
| Total other comprehensive income | | - | - | - | 232,782 | - | - | (167,980) | 64,802 |
| Total comprehensive income | | - | - | - | 232,782 | - | - | 9,603,025 | 9,835,807 |
| Transfer to retained earnings reserve | | - | - | 4,000,000 | - | - | - | (4,000,000) | - |
| Transfer to loan loss reserve | | - | - | - | - | - | (121,317) | 121,317 | - |
| Dividends paid | 49 | - | - | - | - | - | - | (2,320,436) | (2,320,436) |
| Net movement for the year | | - | - | 4,000,000 | - | - | (121,317) | (6,199,119) | (2,320,436) |
| Balances at October 31, 2016 | | <u>2,927,232</u> | <u>2,930,616</u> | <u>21,601,341</u> | <u>146,206</u> | <u>42,087</u> | <u>2,674,162</u> | <u>16,887,410</u> | <u>47,209,054</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Cash Flows**
Year ended October 31, 2016*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|--|-------|----------------------|---------------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 9,771,005 | 5,492,840 |
| Adjustments for: | | | |
| Taxation charge | 14 | 3,139,074 | 2,302,476 |
| Depreciation | 26 | 487,624 | 491,369 |
| Amortisation of intangible assets | 27 | 183 | 2,504 |
| Impairment losses on loans | 23 | 2,811,751 | 2,694,001 |
| Loss on winding up of subsidiaries | 10 | 30,355 | - |
| Write off of property, plant and equipment | 26 | - | 3,494 |
| Increase in retirement benefit assets/obligations | 11 | <u>(387,943)</u> | <u>42,088</u> |
| | | 15,852,049 | 11,028,772 |
| Interest income | 6 | <u>(21,296,656)</u> | <u>(20,477,803)</u> |
| Interest expense | 6 | <u>1,612,241</u> | <u>2,231,353</u> |
| | | <u>(3,832,366)</u> | <u>(7,217,678)</u> |
| Changes in operating assets and liabilities | | | |
| Loans | | <u>(11,899,799)</u> | <u>(9,183,586)</u> |
| Deposits by the public | | 38,282,913 | 18,396,821 |
| Statutory reserves at Bank of Jamaica | | <u>(4,287,813)</u> | <u>(2,752,024)</u> |
| Other liabilities, net | | 628,974 | 885,863 |
| Due to parent company and fellow subsidiaries | | <u>(131,519)</u> | 553,300 |
| Amounts due from other banks | | - | 1,529,389 |
| Amounts with parents and fellow subsidiaries | | 4,549,941 | <u>(1,862,990)</u> |
| Amounts due to other banks and financial institutions | | 18,240 | 198,572 |
| Other assets, net | | <u>(551,919)</u> | <u>(263,521)</u> |
| Securities sold under repurchase agreements | | <u>(4,649,000)</u> | <u>(3,270,000)</u> |
| Taxation recoverable | | 59,589 | <u>(170,535)</u> |
| Retirement benefits asset/obligations | | <u>(84,152)</u> | <u>(60,615)</u> |
| | | 18,103,089 | <u>(3,217,004)</u> |
| Interest received | | 21,310,466 | 20,490,818 |
| Interest paid | | <u>(1,638,332)</u> | <u>(2,356,376)</u> |
| Taxation paid | | <u>(2,548,421)</u> | <u>(1,869,416)</u> |
| Net cash provided by operating activities | | <u>35,226,802</u> | <u>13,048,022</u> |
| Cash flows from investing activities | | | |
| Investment securities | | <u>(7,707,911)</u> | <u>(22,178,984)</u> |
| Pledged assets | | 6,125,547 | 4,284,944 |
| Purchase of property, plant and equipment | 26 | <u>(645,771)</u> | <u>(564,091)</u> |
| Purchase of intangible assets | 27 | <u>(27,997)</u> | <u>(10,752)</u> |
| Net proceeds of winding up of subsidiaries | | 54 | - |
| Government securities purchased under repurchase agreements | | <u>-</u> | <u>180,000</u> |
| Net cash used by investing activities | | <u>(2,256,078)</u> | <u>(18,288,883)</u> |
| Net cash flows from operating and investing activities (carried forward to page 16) | | <u>32,970,724</u> | <u>(5,240,861)</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Cash Flows (Continued)****Year ended October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Notes | 2016 | 2015 |
|--|--------------|---------------------|---------------------|
| Cash flows from operating and investing activities (brought forward from page 15) | | <u>32,970,724</u> | <u>(5,240,861)</u> |
| Cash flows from financing activity | | | |
| Dividends paid, being net cash used by financing activity | 49 | <u>(2,320,436)</u> | <u>-</u> |
| Effect of exchange rate changes on cash and cash equivalents | | <u>1,428,834</u> | <u>1,508,911</u> |
| Net increase/(decrease) in cash and cash equivalents | | 32,079,122 | (3,731,950) |
| Cash and cash equivalents at beginning of year | | <u>34,271,193</u> | <u>38,003,143</u> |
| Cash and cash equivalents at end of year | 17 | <u>66,350,315</u> | <u>34,271,193</u> |

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***1. Identification, Regulation and Licence**

- (a) The Bank of Nova Scotia Jamaica Limited (“the Bank”) is incorporated and domiciled in Jamaica. It is a 100% subsidiary of Scotia Group Jamaica Limited, which is also incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotiabank 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 Bank is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston, Jamaica.

The Bank is licensed under the Banking Services Act, 2014.

- (b) The Bank’s subsidiaries, which together with the Bank are referred to as “the Group”, are as follows:

| Subsidiaries | Principal Activities | Holding | Financial Year End |
|---|---------------------------------------|----------------|---------------------------|
| The Scotia Jamaica Building Society | Deposit taking and mortgage financing | 100% | October 31 |
| Scotia Jamaica Life Insurance Company Limited | Life insurance | 100% | December 31* |

All of the Bank’s subsidiaries are incorporated and domiciled in Jamaica.

*The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2016.

- (c) Winding up of subsidiaries

Brighton Holdings Limited and Scotia Jamaica Financial Services Limited both wholly owned subsidiaries, were wound up on September 30, 2016. Brighton Holdings and Scotia Jamaica Financial Services Limited have contributed profit before tax of \$32,172 and \$4,577 respectively to the Group for the year.

2. Summary of significant accounting policies**(a) Basis of preparation**

- (i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and comply with the Jamaican Companies Act (“the Act”).

New, revised and amended standards and interpretations that became effective during the year

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The Group has assessed them and none of them had any significant effect on the amounts and disclosures in the financial statements.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(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)****New, revised and amended 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 Group has not early-adopted them:

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

The Group is assessing the impact that the standard will have on its 2019 financial statements.

- IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The Group will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity’s performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Group is assessing the impact that this amendment will have on its 2019 financial statements

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(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)****New, revised and amended standards and interpretations that are not yet effective (continued)**

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.

The Group is assessing the impact that this amendment will have on its 2020 financial statements.

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017. Requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

The Group is assessing the impact that this amendment will have on its 2018 financial statements.

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
 - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
 - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
 - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
 - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(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)****New, revised and amended standards and interpretations that are not yet effective (continued)**

The Group is assessing the impact that this amendment will have on its 2018 financial statements.

- Amendments to IFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*, effective for accounting periods beginning on or after January 1, 2016. The amendment requires business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value but previously held interests will not be re-measured.

The Group is assessing the impact that this amendment will have on its 2017 financial statements.

- IAS 19, *Employee Benefits*, effective for accounting periods beginning on or after January 1, 2016, has been amended to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not the country level.

The Group is assessing the impact that this amendment will have on its 2017 financial statements.

- Amendments to IAS 16 and IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortisation*, effective for accounting periods beginning on or after January 1, 2016, has been amended to clarify or state the following:
 - The amendment to IAS 16, *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets.
 - The amendment to IAS 38, *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortisation methods is in appropriate for intangible assets.

The Group is assessing the impact that these amendments will have on its 2017 financial statements.

- Amendments to IAS 27, *Equity Method in Separate Financial Statements*, effective for accounting periods beginning on or after January 1, 2016, allows the use of the equity method in separate financial statements, and apply to the accounting for subsidiaries, associates, and also joint ventures.

The Group is assessing the impact that these amendments will have on its 2017 financial statements.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(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)****New, revised and amended standards and interpretations that are not yet effective (continued)**

- IAS 1, *Presentation of Financial Statements*, effective for accounting periods beginning on or after January 1, 2016, has been amended to clarify or state the following:
 - specific single disclosures that are not material do not have to be presented even if they are the minimum requirements of a standard;
 - the order of notes to the financial statements is not prescribed;
 - line items on the statement of financial position and the statement of profit or loss and other comprehensive income (OCI) should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material;
 - specific criteria are now provided for presenting sub-totals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI; and
 - the presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never, be reclassified to profit or loss.

The Group is assessing the impact that this amendment will have on its 2017 financial statements.

- Amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, in respect of sale or contribution of assets between an investor and its associate or joint venture, are effective for annual reporting periods beginning on or after January 1, 2016. The amendments require that when a parent loses control of a subsidiary in a transaction with an associate or joint venture, the full gain be recognised when the assets transferred meet the definition of a 'business' under IFRS 3, *Business Combinations*.

The Group is assessing the impact these amendments will have on its 2017 financial statements.

- Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities* and IAS 28, *Investments in Associates and Joint Ventures*, effective for accounting periods beginning on or after January 1, 2016, have been amended to introduce clarifications on which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit or loss. IFRS 10 was amended to confirm that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. An investment entity shall measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. IAS 28 was amended to provide an exemption from applying the equity method for investment entities that are subsidiaries and that hold interests in associates and joint ventures.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(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)****New, revised and amended standards and interpretations that are not yet effective (continued)**

Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities* and IAS 28, *Investments in Associates and Joint Ventures* (continued)

- IFRS 12 was amended to clarify that the relevant disclosure requirements in the standard apply to an investment entity in which all of its subsidiaries are measured at fair value through profit or loss.

The Group is assessing the impact that this amendment will have on its 2017 financial statements.

- Improvements to IFRS, 2012-2014 cycle, contain amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 1, 2016. The main amendments applicable to the Group are as follows:

- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* has been amended to clarify that if an entity changes the method of disposal of an asset or disposal group – i.e. reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale or vice versa without any time lag, then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognises any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset or disposal group. If an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.
- IFRS 7, *Financial Instruments: Disclosures*, has been amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred assets in cases when these are derecognised in entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset -e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.
- IFRS 7 has also been amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendment to IFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of IAS 34, *Interim Financial Reporting*, require their inclusion.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(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)****New, revised and amended standards and interpretations that are not yet effective (continued)**

Improvements to IFRS, 2012-2014 (continued)

- IAS 34, *Interim Financial Reporting*, has been amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed “elsewhere in the interim financial report”. The interim financial report is incomplete if the interim financial statements and any disclosures incorporated by cross-reference are not made available to users of the interim financial statements on the same terms and at the same time.

The Group is assessing the impact these amendments will have on its 2017 financial statements.

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and its subsidiaries presented as a single economic entity.

Subsidiaries are those entities controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Bank and its subsidiaries are collectively referred to as “Group”.

Intra-group transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Bank.

The Group uses the acquisition method of accounting for business combinations. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of revenue and expenses.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to, and assesses the performance of, the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

(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. Foreign currency items measured at fair value are translated into the functional currency using the rate of exchange at the date the fair value was determined.

Foreign currency gains and losses resulting from the settlement of foreign currency transactions and from the translation at the reporting date of foreign currency monetary assets and liabilities, are recognised in the statement of revenue and expenses.

(e) Revenue recognition**(i) Interest income**

Interest income is recognised in profit or loss for interest earning instruments 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 asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discounts on treasury bills and other discounted instruments, and amortisation of premiums on instruments bought at a premium.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. 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.

(ii) Fee and commission

Fee and commission income are recognised on the accrual basis when service has been provided. Origination fees for loans are recognised in profit or loss immediately, as they are not considered material for deferral.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(e) Revenue recognition (continued)****(ii) Fee and commission (continued)**

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees are apportioned over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Premium income

Gross premiums are recognised as revenue when due. When premiums are recognised, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue. Unearned premiums are those proportions of premiums written in the current year that relate to periods of risk after the reporting date.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) 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.

(g) Claims

Death claims, net of reinsurance recoveries, are recorded in profit or loss.

(h) Reinsurance contracts held

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. Reinsurance does not relieve the Group of its liability and reinsurance recoveries are recorded when collection is reasonably assured.

(i) Taxation

Taxation on the profit for the year comprises current and deferred income taxes. Current and deferred income taxes are recognised as tax expense or benefit in profit or loss except where they relate to a business combination, or items recognised in other comprehensive income.

(i) Current income tax

Current income tax charges are based on the 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 current tax is calculated at tax rates that have been enacted at the reporting date.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(i) Taxation (continued)****(ii) Deferred tax**

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

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

(j) Insurance contracts**(i) Classification**

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits, at the occurrence of an insured event, that are at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

These contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, the investment portion of insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by interest credited and are decreased by policy administration fees, mortality charges and any withdrawals or surrenders; the resulting liability is called the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration, withdrawals and surrenders. Interest credited to the policy and benefit claims in excess of the cash surrender values incurred in the period are recorded as expenses in the statement of revenue and expenses.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation, as summarised in note 2(k). These liabilities are adjusted through profit or loss to reflect the changes in the valuation.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(k) Policyholders' liabilities**

- (i) The policyholders' liabilities have been calculated using the Policy Premium Method (PPM) of valuation. Under this method, explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted to the valuation date to determine the reserves.
- (ii) Annuities are immediate payouts of fixed and variable amounts for a guaranteed period and recognised on the date that they originate. Benefits are recognised as liabilities until the end of the guarantee period. These liabilities are increased by interest credited and are decreased by policy administration fees, period payment charges and any withdrawals. Income consists mainly of fees deducted for fund administration and interest credited is treated as an expense in profit or loss. The annuity fund is included as a part of policyholders' liabilities [note 35(a)].

(l) Financial assets and liabilities

Financial assets comprise cash resources, government securities purchased under resale agreements, pledged assets, loans and leases, investment securities, and other assets. Financial liabilities comprise deposits due to other banks and financial institutions, related party liabilities, securities sold under repurchase agreements, other liabilities and policyholders' liabilities.

(i) Recognition

The Group initially recognises loans and receivables and deposits on the date at which the Group becomes a party to the contractual provisions of the instrument, i.e., the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated as at fair value through profit or loss) are initially recognised on the settlement date – the date on which the asset is delivered to or by the Group.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset have expired, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group enters into transactions whereby it transfers assets but retains either all or a portion of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(iii) Measurement

On initial recognition, financial assets and liabilities are measured at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(l) Financial assets and liabilities (continued)****(iii) Measurement (continued)**

The measurement of financial assets subsequent to initial recognition depends upon their classification as set out in note 2(m)(i) below, namely: loans and receivables are measured at amortised cost using the effective interest method; held-to-maturity investments are measured at amortised cost using the effective interest method; investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at cost.

Other financial assets are measured at their fair values without any deduction for transaction costs that may be incurred on sale or other disposal. Financial liabilities are measured at amortised cost after initial recognition.

(m) Financial assets**(i) Classification**

The Group classifies its financial assets as: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(1) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term or if so designated by management. These assets are measured at fair value and all related gains and losses are included in profit or loss.

(2) Loans and receivables

See details at note 2(q).

(3) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale and the Group would be prohibited from classifying investment securities as held-to-maturity for two financial years. Held-to-maturity investments are measured at amortised cost.

(4) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified in any of the other categories of financial assets. They are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(m) Financial assets (continued)****(i) Classification (continued)****(4) Available-for-sale (continued)**

Available-for-sale investments are measured at fair value, except for any unquoted equity securities whose fair value cannot be reliably measured, which are carried at cost. Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Other unrealised gains and losses arising from changes in fair value of available-for-sale investments are recognised in other comprehensive income. On disposal or impairment of these investments, the realised gains or losses included in stockholders' equity are transferred to profit or loss.

(ii) Identification and measurement of impairment

At each financial year end, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by it on terms that it would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset level and collectively. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, management makes judgements as to current economic and credit conditions and their effect on default rates, loss rates and the expected timing of future recoveries, ensuring that assumptions remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(m) Financial assets (continued)****(ii) Identification and measurement of impairment (continued)**

Impairment losses on available-for-sale securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(n) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

(o) Investment in subsidiaries

Investments by the Bank in subsidiaries are measured at cost, less impairment losses.

(p) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase the asset at a fixed price on a future date (repurchase agreements) and securities purchased under agreements to resell the asset at a fixed price on a future date (reverse repurchase agreements) are treated as collateralised financing transactions. In the case of reverse repurchase agreements, the underlying asset is not recognised in the Group's financial statements; in the case of repurchase agreements the underlying collateral is not derecognised from the Group's financial statements but is segregated as pledged assets. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective interest method.

(q) Loans and receivables and allowance for impairment losses

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, or that, upon initial recognition, the Group designates as at fair value through profit or loss, or as available-for-sale.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(q) Loans and receivables and allowance for impairment losses (continued)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, or that, upon initial recognition, the Group designates as at fair value through profit or loss, or as available-for-sale.

Loans and receivables are initially recorded at the fair value of the consideration given, which is the cash disbursed to originate the loan, including any transaction costs, and are subsequently measured at amortised cost.

The Group considers a loan to be impaired when there is objective evidence of impairment as a result of one or more loss events that occurred after the date of initial recognition of the loan and the loss event has an impact on the estimated future cash flows of the loan that can be reliably estimated. An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. Objective evidence is represented by observable data that comes to the attention of the Group and includes events that indicate:

- i. significant financial difficulty of the borrower;
- ii. default or delinquency in interest or principal amounts;
- iii. the probability of the borrower entering a phase of bankruptcy or financial reorganisation;
- iv. measurable decrease in the estimated future cash flows from the loan.

The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the impaired loans.

Credit card loans are written off when payment of the contractual amounts are considered remote. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. On classification as a non-performing loan, any interest that is contractually due but in arrears is reversed from the profit or loss, and interest is thereafter recognised on the cash basis. The regulations stipulate the criteria for specific provisions based on length of time in arrears, whether or not the loan is secured and the collateral held. The regulations also require a general provision of 1% be established for all loans, excluding those with specific provisions.

The recognition of interest on impaired loans in accordance with the regulations differs from IFRS, which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. The difference is not considered material.

Statutory and other regulatory loan loss reserve amounts that exceed the amounts required under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits.

(r) Acceptances and guarantees

The Bank's potential liability under acceptances and guarantees is reported as a liability in the statement of financial position. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(s) Intangible assets**

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits beyond one year, are recognised as intangible assets. However, such costs are expensed where they are considered to be immaterial.

(t) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged as an expense and included in profit or loss over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to profit or loss on the straight-line basis over the period of the lease.

(u) Property, plant and equipment

Land is measured at historical cost. All other property, plant and equipment are measured at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Expenditure subsequent to acquisition is included in the asset's carrying amount or is recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other expenditure is classified as repairs and renewals and charged as expense in profit or loss during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the depreciable amount of the assets over their expected useful lives, as follows:

| | |
|-----------------------------------|-----------------|
| Buildings | 40 years |
| Furniture, fixtures and equipment | 10 years |
| Computer equipment | 4 years |
| Motor vehicles | 5 years |
| Leasehold improvements | Period of lease |

The depreciation methods, 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 amount and are taken into account in determining the profit or loss for the year.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(v) Employee benefits**

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions and vacation leave; non-monetary benefits such as medical care; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. Post-employment benefits, termination benefits and equity compensation benefits are accounted for as described below. Other long-term benefits are not considered material and are expensed when incurred.

(i) Defined benefits plan

The Group operates a defined benefits plan, the assets of which are held in a separate trustee-administered fund. The plan is funded by contributions from employees and the Group, taking into account the recommendations of qualified actuaries.

The asset or liability in respect of the defined benefits plan is the difference between the present value of the defined benefits obligation at the reporting date and the fair value of plan assets. Where a pension asset arises, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan.

The pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged as an expense in such a manner as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with IAS 19. Remeasurements comprising actuarial gains and losses, and change in the effect of asset ceiling are reported in other comprehensive income. The pension obligation is measured as the present value of the estimated future benefits of employees, in return for service in the current and prior periods, using estimated discount rates based on market yields on Government securities which have terms to maturity approximating the terms of the related liability.

The Group determines the net interest income on the net defined benefits asset for the period by applying the discount rate used to measure the defined benefit asset at the beginning of the year to the net defined benefit asset for the year, taking into account any changes in the asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses of post-retirement obligations is recognised in profit or loss.

When the benefits of a plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(v) Employee benefits (continued)****(ii) Termination benefits**

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the service of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the reporting date are discounted to present value.

(iii) Other post-retirement obligations

The Group also provides supplementary health care and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the completion of a minimum service period and the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by qualified independent actuaries.

(iv) Equity compensation benefits

The Group has an Employee Share Ownership Plan (ESOP) for eligible employees. The Group provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits in the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 50) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares is not considered material. Further, the effect of forfeitures is not considered material.

The special purpose entity that operates the Plan has not been consolidated as the effect of doing so is not considered material.

(v) Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year end.

(w) Borrowings

Borrowings are recognised initially at the fair value of consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption amount is recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(x) Share capital**

- (i) Ordinary shares are classified as equity, when there is no obligation to transfer cash or other assets.

Preference share capital is classified as equity, except where it is redeemable on a specific or determinable date or at the option of the shareholders and/or if dividend payments are not discretionary, in which case it is classified as a liability.

- (ii) Dividends

Dividends on ordinary shares and preference shares classified as equity are recognised in stockholder's equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable. Dividend payments on preference shares classified as a liability are recognised in the statement of revenue and expenses as interest expense.

(y) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bank of Jamaica, amounts due from other banks, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

(z) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a *pro rata* basis.

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a *pro rata* basis.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(z) Impairment of non-financial assets (continued)**

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Critical accounting estimates, and judgements made in applying accounting policies

The Group makes estimates, assumptions and judgements that affect the reported amounts of, and disclosures relating to assets, liabilities, income and expenses reported in these financial statements. Amounts and disclosures based on these estimates, assumptions and judgements may be different from actual outcomes, and these differences may be reported in the financial statements of 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.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain in the ordinary course of business. In cases of such uncertainty, the Group recognises liabilities for possible additional taxes based on its judgement. Where the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Critical accounting estimates, and judgements made in applying accounting policies (continued)****(iii) Estimate of future payments and premiums arising from long-term insurance contracts**

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation, which is outlined in note 2(k).

The process of calculating policy liabilities necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

These estimates are more fully described in note 35.

(iv) Pension and other post-employment benefits

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using assumptions. The assumptions used in determining the net periodic cost/(income) for pension and other post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost/(income) recorded for pension and post-employment benefits and may affect planned funding of the pension plan.

The Group determines the appropriate discount rate at the end of each year; such rate represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-employment benefit obligations. In determining the appropriate discount rate, the Group considers interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation.

Past experience has shown that the actual medical costs have increased on average by the rate of inflation. Other key assumptions for the pension and other post-retirement benefits cost and credits are based, in part, on current market conditions.

(v) Valuation of financial instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates.

Considerable judgment is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***4. Responsibilities of the appointed actuary and external auditors**

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary, whose responsibility is to carry out an annual valuation of the Group's insurance policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the stockholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force. An actuarial valuation is prepared annually.

The shareholders, pursuant to the Jamaican Companies Act, appoint the external auditors. Their responsibility is to conduct an independent audit of the financial statements in accordance with International Standards on Auditing and report thereon to the stockholders. In carrying out their audit, the auditors make use of the work of the appointed Actuary and his report on the policyholders' liabilities.

5. Segmental financial information

The Group is organised into five main business segments:

- (a) Retail Banking – this incorporates personal banking services, personal deposit accounts, credit and debit cards, consumer loans and mortgages;
- (b) Corporate and Commercial Banking – this incorporates non-personal direct debit facilities, current accounts, deposits, overdrafts, loans, trading and other credit facilities;
- (c) Treasury – this incorporates the Bank's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading activities;
- (d) Insurance Services – this incorporates the provision of life and medical insurance, individual pension administration and annuities;
- (e) Other operations of the Group – comprises non-trading subsidiaries.

The Group's operations are located solely in Jamaica and transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation, retirement benefits asset and obligations and borrowings. Eliminations comprise intercompany transactions and balances.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2016

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

| | <u>The Group</u> | | | | | | <u>2016</u> |
|-------------------------------|--------------------|---|--------------------|-------------------------------|---------------|---------------------|---------------------------|
| | <u>Retail</u> | <u>Banking Corporate and Commercial</u> | <u>Treasury</u> | <u>Insurance services</u> | <u>Other</u> | <u>Eliminations</u> | |
| Net external revenues | 18,243,243 | 6,986,075 | 4,235,050 | 4,571,168 | 3,309 | - | 34,038,845 |
| Revenue from other segments | (670,607) | <u>1,167,971</u> | (619,552) | <u>83,934</u> | <u>48,241</u> | (9,987) | - |
| Total revenues | 17,572,636 | 8,154,046 | 3,615,498 | 4,655,102 | 51,550 | (9,987) | 34,038,845 |
| Total expenses and losses | (12,449,466) | (6,034,359) | (476,104) | (1,178,757) | (576) | - | (20,139,262) |
| Profit before tax | <u>5,123,170</u> | <u>2,119,687</u> | <u>3,139,394</u> | <u>3,476,345</u> | <u>50,974</u> | (9,987) | 13,899,583 |
| Taxation | | | | | | | (4,511,557) |
| Profit for the year | | | | | | | <u>9,388,026</u> |
| Segment assets | <u>111,342,053</u> | <u>73,075,303</u> | <u>147,553,375</u> | <u>56,758,368</u> | - | (3,858,083) | 384,871,016 |
| Unallocated assets | | | | | | | <u>19,686,501</u> |
| Total assets | | | | | | | <u>404,557,517</u> |
| Segment liabilities | <u>143,015,140</u> | <u>136,252,383</u> | <u>913,049</u> | <u>45,360,140</u> | - | (3,437,175) | 322,103,537 |
| Unallocated liabilities | | | | | | | <u>14,819,741</u> |
| Total liabilities | | | | | | | <u>336,923,278</u> |
| Other segment items: | | | | | | | |
| Capital expenditure | 471,499 | 202,270 | - | 29,707 | - | - | 703,476 |
| Impairment losses on loans | 1,390,833 | (18,959) | - | - | - | - | 1,371,874 |
| Depreciation and amortisation | <u>325,239</u> | <u>164,635</u> | - | <u>10,177</u> | - | - | <u>500,051</u> |

Capital expenditure comprises additions to property, plant and equipment (note 26) and intangible assets (note 27).

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2016

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

| | The Group | | | | | | Group |
|-------------------------------|--------------------|---|--------------------|-----------------------|----------------|--------------|---------------------------|
| | 2015 | | | | | | |
| | Retail | Banking Corporate and Commercial | Treasury | Insurance services | Other | Eliminations | |
| Net external revenues | 16,784,920 | 6,574,589 | 3,301,145 | 5,443,422 | 18,524 | - | 32,122,600 |
| Revenue from other segments | (851,449) | 1,132,723 | (355,023) | 85,995 | - | (12,246) | - |
| Total revenues | 15,933,471 | 7,707,312 | 2,946,122 | 5,529,417 | 18,524 | (12,246) | 32,122,600 |
| Total expenses and losses | (12,163,739) | (6,000,734) | (414,263) | (1,704,806) | (1,123) | - | (20,284,665) |
| Profit before tax | <u>3,769,732</u> | <u>1,706,578</u> | <u>2,531,859</u> | <u>3,824,611</u> | <u>17,401</u> | (12,246) | 11,837,935 |
| Taxation | | | | | | | (3,558,449) |
| Profit for the year | | | | | | | <u>8,279,486</u> |
| Segment assets | <u>97,738,969</u> | <u>72,867,345</u> | <u>116,285,242</u> | <u>55,890,030</u> | <u>200,988</u> | (3,202,300) | 339,780,274 |
| Unallocated assets | | | | | | | 18,487,847 |
| Total assets | | | | | | | <u>358,268,121</u> |
| Segment liabilities | <u>121,761,347</u> | <u>116,918,702</u> | <u>5,568,900</u> | <u>43,655,947</u> | <u>59,250</u> | (3,008,168) | 284,955,978 |
| Unallocated liabilities | | | | | | | 13,110,659 |
| Total liabilities | | | | | | | <u>298,066,637</u> |
| Other segment items: | | | | | | | |
| Capital expenditure | 324,627 | 251,691 | - | 15,844 | - | - | 592,162 |
| Impairment losses on loans | 1,264,547 | 58,345 | - | - | - | - | 1,322,892 |
| Depreciation and amortisation | <u>330,196</u> | <u>165,842</u> | <u>-</u> | <u>10,357</u> | <u>-</u> | <u>-</u> | <u>506,395</u> |

Capital expenditure comprises additions to property, plant and equipment (note 26) and intangible assets (note 27).

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***6. Net interest income**

| | The Group | | The Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest income: | | | | |
| Deposits with banks and other financial institutions | 400,234 | 421,105 | 331,832 | 145,672 |
| Investment securities | 5,489,968 | 5,640,154 | 2,127,403 | 2,219,535 |
| Reverse repurchase agreements | 169,540 | 210,058 | 118,554 | 147,493 |
| Loans and advances | <u>21,199,937</u> | <u>20,174,289</u> | <u>18,718,867</u> | <u>17,965,103</u> |
| | <u>27,259,679</u> | <u>26,445,606</u> | <u>21,296,656</u> | <u>20,477,803</u> |
| Interest expense: | | | | |
| Banks and customers | 1,961,797 | 2,188,897 | 1,468,051 | 1,772,200 |
| Repurchase agreements | 115,439 | 427,680 | 142,515 | 458,724 |
| Policyholders' liabilities | 1,677,680 | 1,763,998 | - | - |
| Other | <u>79,662</u> | <u>429</u> | <u>1,675</u> | <u>429</u> |
| | <u>3,834,578</u> | <u>4,381,004</u> | <u>1,612,241</u> | <u>2,231,353</u> |
| Net interest income | <u>23,425,101</u> | <u>22,064,602</u> | <u>19,684,415</u> | <u>18,246,450</u> |

7. Net fee and commission income

| | The Group | | The Bank | |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Fee and commission income: | | | | |
| Retail banking fees | 4,602,567 | 4,145,262 | 4,595,513 | 4,136,385 |
| Credit related fees | 1,271,841 | 1,139,206 | 1,212,632 | 1,098,146 |
| Commercial and depository fees | 5,189,489 | 4,327,090 | 5,189,489 | 4,327,090 |
| Insurance related fees | <u>168,392</u> | <u>181,180</u> | <u>-</u> | <u>-</u> |
| | 11,232,289 | 9,792,738 | 10,997,634 | 9,561,621 |
| Fee and commission expenses | <u>(5,473,308)</u> | <u>(4,402,849)</u> | <u>(5,473,308)</u> | <u>(4,402,849)</u> |
| | <u>5,758,981</u> | <u>5,389,889</u> | <u>5,524,326</u> | <u>5,158,772</u> |

8. Net foreign exchange trading income

Net foreign exchange trading income is comprised of gains and losses arising primarily from foreign currency trading activities.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***9. Insurance revenue**

| | <u>The Group</u> | |
|-------------------------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Gross premiums | | |
| Individual life | 789,737 | 871,398 |
| Group life | <u>1,265,152</u> | <u>1,221,841</u> |
| | 2,054,889 | 2,093,239 |
| Reinsurance ceded | (1,465) | (953) |
| | 2,053,424 | 2,092,286 |
| Changes in actuarial reserves | <u>315,885</u> | <u>1,111,646</u> |
| | <u>2,369,309</u> | <u>3,203,932</u> |

10. Other revenue

| | <u>The Group</u> | | <u>The Bank</u> | |
|--|------------------|--------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Net gain on sale of property, plant and equipment and intangible assets | - | 7,513 | - | - |
| Dividend income | - | - | 3,964,912 | 1,210,604 |
| Loss on winding up of subsidiaries | - | - | (30,355) | - |
| | <u>-</u> | <u>7,513</u> | <u>3,934,557</u> | <u>1,210,604</u> |

11. Salaries, pension contributions and other staff benefits

| | <u>The Group</u> | | <u>The Bank</u> | |
|---|-------------------|------------------|-------------------|------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Wages and salaries | 7,743,526 | 7,581,664 | 7,277,081 | 6,978,344 |
| Statutory payroll contributions | 689,208 | 689,004 | 654,461 | 650,880 |
| Other staff benefits | <u>1,441,086</u> | <u>1,306,291</u> | <u>1,369,517</u> | <u>1,254,485</u> |
| | <u>9,873,820</u> | <u>9,576,959</u> | <u>9,301,059</u> | <u>8,883,709</u> |
| Post employment benefits | | | | |
| Pension credit on defined benefit plan [note 28(a)(v)] | (809,624) | (515,661) | (809,624) | (515,661) |
| Other post-retirement benefits cost [note 28(b)(ii)] | <u>421,681</u> | <u>557,749</u> | <u>421,681</u> | <u>557,749</u> |
| | <u>(387,943)</u> | <u>42,088</u> | <u>(387,943)</u> | <u>42,088</u> |
| Total (note 12) | <u>9,485,877</u> | <u>9,619,047</u> | <u>8,913,116</u> | <u>8,925,797</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***12. Expenses by nature**

| | The Group | | The Bank | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Salaries, pension contributions and other staff benefits (note 11) | 9,485,877 | 9,619,047 | 8,913,116 | 8,925,797 |
| Property expenses, including depreciation | 1,908,528 | 1,938,995 | 1,814,489 | 1,853,891 |
| Systems related expenses | 1,444,631 | 1,638,336 | 1,444,631 | 1,638,336 |
| Insurance claims and benefits | 168,465 | 184,713 | - | - |
| Transportation and communication | 951,385 | 1,054,962 | 920,356 | 1,024,403 |
| Marketing and advertising | 542,974 | 537,710 | 522,877 | 497,223 |
| Professional, Legal and Consultancy fees | 426,305 | 431,397 | 365,352 | 370,777 |
| Technical and support services | 1,366,268 | 1,063,360 | 1,212,112 | 913,499 |
| Asset tax | 819,864 | 1,138,017 | 636,085 | 570,939 |
| Licencing and fees paid to regulators | 90,107 | 80,603 | 56,191 | 50,143 |
| Deposit insurance | 347,217 | 318,257 | 330,892 | 303,447 |
| Stationery | 390,072 | 387,140 | 380,221 | 376,333 |
| Other operating expenses | <u>825,695</u> | <u>569,236</u> | <u>693,208</u> | <u>487,164</u> |
| | <u>18,767,388</u> | <u>18,961,773</u> | <u>17,289,530</u> | <u>17,011,952</u> |

13. Profit before taxation

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

| | The Group | | The Bank | |
|--|----------------|----------------|----------------|----------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Auditors' remuneration | 32,959 | 31,518 | 23,653 | 22,194 |
| Depreciation of property, plant and equipment | 497,867 | 503,891 | 487,624 | 491,369 |
| Amortisation of intangible assets | 2,184 | 2,504 | 183 | 2,504 |
| Directors' emoluments: | | | | |
| Fees | 8,421 | 6,885 | 1,412 | 1,150 |
| Management remuneration | 56,637 | 53,725 | 56,637 | 53,725 |
| Operating lease rentals | <u>360,004</u> | <u>328,552</u> | <u>306,334</u> | <u>282,312</u> |

14. Taxation**(a) Taxation charge**

Income tax is computed on the profit for the year as adjusted for tax purposes; other taxes are computed at rates and on items shown below:

| | The Group | | The Bank | |
|---|------------------|------------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Current income tax: | | | | |
| Income tax at 33½% | 3,082,478 | 2,288,335 | 3,082,478 | 2,288,335 |
| Income tax at 30% | 491,071 | 466,696 | - | - |
| Income tax at 25% | 882,084 | 746,403 | - | - |
| Adjustment for (over)/under provision of prior year's charge | <u>(4,336)</u> | <u>58,974</u> | <u>(4,336)</u> | <u>58,974</u> |
| | 4,451,297 | 3,560,408 | 3,078,142 | 2,347,309 |
| Deferred income tax (note 34) | <u>60,260</u> | <u>(1,959)</u> | <u>60,932</u> | <u>(44,833)</u> |
| | <u>4,511,557</u> | <u>3,558,449</u> | <u>3,139,074</u> | <u>2,302,476</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***14. Taxation (continued)**

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

| | The Group | | The Bank | |
|--|-------------------|-------------------|-------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Profit before taxation | <u>13,899,583</u> | <u>11,837,935</u> | <u>12,910,079</u> | <u>7,795,316</u> |
| Tax calculated at 33½% | 4,633,194 | 3,945,978 | 4,303,360 | 2,598,439 |
| Adjusted for the tax effects of: | | | | |
| Different tax regimes applicable to life insurance and mortgage financing subsidiaries | (340,510) | (496,164) | - | - |
| Interest/dividend from tax free investments | (30,498) | (32,363) | (1,287,140) | (435,238) |
| Expenses not deductible for tax purposes | 215,804 | 191,859 | 215,804 | 191,859 |
| Other charges and allowances | 37,903 | (109,835) | (88,614) | (111,558) |
| Prior year under/(over) provision | (4,336) | 58,974 | (4,336) | 58,974 |
| Taxation expense | <u>4,511,557</u> | <u>3,558,449</u> | <u>3,139,074</u> | <u>2,302,476</u> |
| Effective tax rate | <u>32.46%</u> | <u>30.06%</u> | <u>24.31%</u> | <u>29.54%</u> |

(c) Change in tax rate:

With effect from 1 January 2015, the tax regime of life insurance companies was changed to withdraw the investment income tax at 15% and the 3% tax on gross premiums. The new regime provides for Income Tax at 25% upon all chargeable income, profits or gains, including any reduction in the actuarial reserves but excluding releases of accumulated actuarial reserves that were made in respect of premium taxes and investment taxes in the accounts of life assurance companies prior to January 1, 2015. In addition, insurance companies may exclude premiums received as (i) contributions to approved superannuation funds or approved retirement schemes; (ii) payment in respect of annuities purchased from the company by any such fund or scheme; and any amounts or earnings arising from the investment of any funds-derived from the sale of the annuities and deposited in a separate account established solely for that purpose.

15. Earnings per stock unit

Basic earnings per stock unit is calculated by dividing the profit for the year attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

| | The Group | |
|---|------------------|------------------|
| | 2016 | 2015 |
| Profit for the year attributable to stockholders | <u>9,388,026</u> | <u>8,279,486</u> |
| Weighted average number of ordinary stock units in issue ('000) | <u>2,927,232</u> | <u>2,927,232</u> |
| Basic earnings per stock unit (expressed in \$ per share) | <u>3.21</u> | <u>2.83</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***16. Cash and balances at Bank of Jamaica**

| | The Group | | The Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Statutory reserves – interest-bearing | 314,686 | 7,807,661 | 313,620 | 7,806,855 |
| Statutory reserves with Bank of Jamaica – non interest-bearing | <u>26,780,021</u> | <u>14,969,566</u> | <u>26,659,918</u> | <u>14,878,871</u> |
| Total statutory reserve (note 17) | 27,094,707 | 22,777,227 | 26,973,538 | 22,685,726 |
| Cash in hand and at bank | <u>11,777,109</u> | <u>8,778,278</u> | <u>8,894,442</u> | <u>5,737,000</u> |
| | <u>38,871,816</u> | <u>31,555,505</u> | <u>35,867,980</u> | <u>28,422,726</u> |

At the reporting date, statutory reserves with the Bank of Jamaica represent the required primary reserve ratios.

| Relevant legislation | Entity | Reserve percentage | | | |
|--|--------|--------------------|-------------|------------------|-------------|
| | | Jamaican | | Foreign currency | |
| | | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Banking Services Act, 2014, Section 43 | BNSJ | 12% | 12% | 10% | 9% |
| Building Society Regulations, Section 31 | SJBS | <u>1%</u> | <u>1%</u> | <u>1%</u> | <u>1%</u> |

These balances are not available for investment, lending or other use by the Group.

17. Cash and cash equivalents

| | The Group | | The Bank | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Cash resources | 95,409,569 | 65,988,880 | 92,373,552 | 62,769,880 |
| Less amounts not considered cash and cash equivalents: | | | | |
| Statutory reserves | (27,094,707) | (22,777,227) | (26,973,538) | (22,685,726) |
| Other balances at Bank of Jamaica | (379,649) | (1,740,000) | - | - |
| Cheques and other instruments in transit | (1,678,684) | (1,814,888) | (1,736,695) | (1,854,588) |
| Accounts with parent and fellow subsidiaries greater than ninety days | - | (5,978,775) | - | (5,978,774) |
| Accrued interest | (20,879) | (30,823) | (13,004) | (9,599) |
| | 66,235,650 | 33,647,167 | 63,650,315 | 32,241,193 |
| Add other cash equivalent balances: | | | | |
| Repurchase agreement less than ninety days | <u>3,500,000</u> | <u>2,926,067</u> | <u>2,700,000</u> | <u>2,030,000</u> |
| | <u>69,735,650</u> | <u>36,573,234</u> | <u>66,350,315</u> | <u>34,271,193</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***17. Cash and cash equivalents (continued)**

| | <u>The Group</u> | | <u>The Bank</u> | |
|--|---------------------|---------------------|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Cash and cash equivalent is comprised of: | | | | |
| Cash and balances with Bank of Jamaica other than statutory reserves | 11,397,460 | 7,038,277 | 8,894,443 | 5,737,000 |
| Government and bank notes other than Jamaican | 839,283 | 596,190 | 839,283 | 596,190 |
| Amounts due from other banks | 32,857,698 | 24,012,549 | 32,825,516 | 23,926,328 |
| Accounts with parent and fellow subsidiaries | 22,840,772 | 3,845,862 | 22,840,772 | 3,845,862 |
| Repurchase agreements | 3,500,000 | 2,926,067 | 2,700,000 | 2,030,000 |
| Accrued interest | <u>(20,879)</u> | <u>(30,823)</u> | <u>(13,004)</u> | <u>(9,599)</u> |
| | 71,414,334 | 38,388,122 | 68,087,010 | 36,125,781 |
| Less: Cheques and other instruments in transit | <u>(1,678,684)</u> | <u>(1,814,888)</u> | <u>(1,736,695)</u> | <u>(1,854,588)</u> |
| | <u>69,735,650</u> | <u>36,573,234</u> | <u>66,350,315</u> | <u>34,271,193</u> |

18. Due from other banks

| | <u>The Group</u> | | <u>The Bank</u> | |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Items in course of collection from other banks | 747,067 | 475,529 | 747,067 | 475,529 |
| Placements with other banks | <u>32,110,631</u> | <u>23,537,020</u> | <u>32,078,449</u> | <u>23,450,799</u> |
| | <u>32,857,698</u> | <u>24,012,549</u> | <u>32,825,516</u> | <u>23,926,328</u> |

19. Accounts with parent and fellow subsidiaries

These represent accounts held with the parent company and fellow subsidiaries in the normal course of business.

20. Government securities purchased under resale agreements

The Group enters into reverse repurchase agreements collateralised by Government of Jamaica securities.

| | <u>The Group</u> | | <u>The Bank</u> | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Reverse repurchase agreements | 3,500,000 | 2,926,067 | 2,700,000 | 2,030,000 |
| Interest receivable | <u>5,818</u> | <u>11,054</u> | <u>3,520</u> | <u>7,544</u> |
| | <u>3,505,818</u> | <u>2,937,121</u> | <u>2,703,520</u> | <u>2,037,544</u> |

Included in Government securities purchased under resale agreements are securities with an original maturity less than ninety days, amounting to \$3,500,000 (2015: \$2,926,067) for the Group and \$2,700,000 (2015: \$2,030,000) for the Bank, which are regarded as cash equivalents for the purposes of the statement of cash flows (see note 17).

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***20. Government securities purchased under resale agreements (continued)**

The fair value of collateral held pursuant to reverse repurchase agreements is \$3,754,354 (2015: \$3,071,448) for the Group and \$2,913,798 (2015: \$2,130,301) for the Bank.

21. Pledged assets

Assets are pledged to regulators, the clearing house and other financial institutions, and held as collateral under repurchase agreements with customers and financial institutions. All repurchase agreements mature within twelve months and are conducted under the terms that are customary for these transactions.

| | <u>The Group</u> | | <u>The Bank</u> | |
|---|------------------|------------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Securities with regulators, clearing house and other financial institutions | 890,898 | 712,853 | 890,898 | 712,853 |
| Investment securities pledged as collateral for securities sold under repurchase agreements | <u>-</u> | <u>6,709,873</u> | <u>960,285</u> | <u>7,304,419</u> |
| | <u>890,898</u> | <u>7,422,726</u> | <u>1,851,183</u> | <u>8,017,272</u> |

Included in pledged assets are government issued securities held as available-for-sale, amounting to \$890,898 (2015: \$7,422,726) for the Group and \$1,851,183 (2015: \$8,017,272) for the Bank.

22. Loans, after allowance for impairment losses

| | <u>The Group</u> | | <u>The Bank</u> | |
|---|---------------------|---------------------|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Business and Government | 65,155,242 | 63,967,726 | 65,755,242 | 64,567,726 |
| Personal and credit cards | 74,638,663 | 68,187,765 | 73,027,514 | 66,858,014 |
| Residential mortgages | 27,131,580 | 22,657,740 | 1,668,709 | - |
| Interest receivable | <u>1,086,065</u> | <u>1,057,391</u> | <u>859,344</u> | <u>845,135</u> |
| Total | <u>168,011,550</u> | <u>155,870,622</u> | <u>141,310,809</u> | <u>132,270,875</u> |
| Less: Allowance for impairment losses (note 23) | <u>(1,857,966)</u> | <u>(1,874,093)</u> | <u>(1,630,143)</u> | <u>(1,692,466)</u> |
| | <u>166,153,584</u> | <u>153,996,529</u> | <u>139,680,666</u> | <u>130,578,409</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***22. Loans, after allowance for impairment losses (continued)**

(i) The aging of the loans at the reporting date was:

| | The Group | | The Bank | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Neither past due nor impaired | <u>146,696,553</u> | <u>139,091,609</u> | <u>124,634,304</u> | <u>119,397,538</u> |
| Past due but not impaired | | | | |
| Past due 1-30 days | 11,120,575 | 6,964,220 | 8,612,017 | 4,923,396 |
| Past due 31-60 days | 2,835,920 | 2,779,349 | 2,279,158 | 2,296,141 |
| Past due 61-90 days | <u>1,942,384</u> | <u>1,478,304</u> | <u>1,573,380</u> | <u>1,183,186</u> |
| | <u>15,898,879</u> | <u>11,221,873</u> | <u>12,464,555</u> | <u>8,402,723</u> |
| Impaired: | | | | |
| Past due more than 90 days | <u>4,330,053</u> | <u>4,499,749</u> | <u>3,352,606</u> | <u>3,625,479</u> |
| Interest receivable | <u>1,086,065</u> | <u>1,057,391</u> | <u>859,344</u> | <u>845,135</u> |
| Gross loan portfolio | 168,011,550 | 155,870,622 | 141,310,809 | 132,270,875 |
| Less: Allowance for impairment losses | <u>(1,857,966)</u> | <u>(1,874,093)</u> | <u>(1,630,143)</u> | <u>(1,692,466)</u> |
| | <u>166,153,584</u> | <u>153,996,529</u> | <u>139,680,666</u> | <u>130,578,409</u> |

(ii) Repossessed collateral:

In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure the loan gives the Group express authority to repossess the collateral in the event of default. Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Re-possessed collateral is not recognised on the Group's statement of financial position.

23. Impairment losses on loans

| | The Group | | The Bank | |
|--|--------------------|--------------------|--------------------|--------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Total impaired loans | <u>4,330,053</u> | <u>4,499,749</u> | <u>3,352,206</u> | <u>3,625,479</u> |
| Allowance at beginning of year | 1,874,093 | 1,897,945 | 1,692,466 | 1,741,187 |
| Provided during the year | 2,859,748 | 2,739,480 | 2,811,751 | 2,694,001 |
| Bad debts written off | <u>(2,875,875)</u> | <u>(2,763,332)</u> | <u>(2,874,074)</u> | <u>(2,742,722)</u> |
| Allowance at end of year (note 22) | <u>1,857,966</u> | <u>1,874,093</u> | <u>1,630,143</u> | <u>1,692,466</u> |
| Provided during the year | 2,859,748 | 2,739,480 | 2,811,751 | 2,694,001 |
| Recoveries of bad debts | <u>(1,487,874)</u> | <u>(1,416,588)</u> | <u>(1,487,832)</u> | <u>(1,416,506)</u> |
| Impairment losses reported in profit or loss | <u>1,371,874</u> | <u>1,322,892</u> | <u>1,323,919</u> | <u>1,277,495</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***23. Impairment losses on loans (continued)**

Allowance for impairment losses:

A loan is classified as impaired if its book value exceeds the present value of the expected cash flows from interest payments, principal repayments, guarantees and proceeds of liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest on impaired loans not accrued in these financial statements was estimated at \$1,891,337 (2015: \$2,031,754) for the Group and \$1,635,179 (2015: \$1,786,784) for the Bank. The total allowance for loan losses is made up as follows:

| | The Group | | The Bank | |
|--|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Allowance based on IFRS [see (a) below] | 1,857,966 | 1,874,093 | 1,630,143 | 1,692,466 |
| Additional allowance based on BOJ regulations [see (b) below] | <u>3,132,841</u> | <u>3,193,457</u> | <u>2,674,162</u> | <u>2,795,479</u> |
| | <u>4,990,807</u> | <u>5,067,550</u> | <u>4,304,305</u> | <u>4,487,945</u> |

(a) This is the allowance based on the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*.

(b) This represents the additional allowance required to meet the Bank of Jamaica loan loss provisioning requirement. A non-distributable loan loss reserve was established to represent the excess of the Bank's provision over the IAS 39 requirements (note 41).

24. Investment securities

| | The Group | | The Bank | |
|--|--------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Available-for-sale (AFS) | | | | |
| Government of Jamaica securities | 64,737,664 | 57,802,346 | 24,322,431 | 20,751,096 |
| Bank of Jamaica securities | 7,056,502 | 208,502 | 5,019,152 | - |
| Treasury Bills | 2,129,514 | - | - | - |
| Corporate bonds | 25,281,045 | 24,739,977 | 25,281,045 | 24,011,561 |
| Unit trust | 707,603 | 574,894 | - | - |
| Unquoted shares | 5,105 | 5,240 | 5,105 | 5,105 |
| Other | - | 1,778,830 | - | 1,778,830 |
| Interest receivable | <u>850,371</u> | <u>818,433</u> | <u>356,386</u> | <u>343,241</u> |
| | <u>100,767,804</u> | <u>85,928,222</u> | <u>54,984,119</u> | <u>46,889,833</u> |
| Held-to-Maturity (HTM) | | | | |
| Government of Jamaica securities | 5,249,500 | 9,129,400 | - | - |
| Interest receivable | <u>154,731</u> | <u>217,066</u> | - | - |
| | <u>5,404,231</u> | <u>9,346,466</u> | - | - |
| | <u>106,172,035</u> | <u>95,274,688</u> | <u>54,984,119</u> | <u>46,889,833</u> |
| Financial assets at fair value through profit or loss | | | | |
| Government of Jamaica securities | <u>200,058</u> | <u>384,895</u> | <u>36,482</u> | <u>70,188</u> |
| Total investment securities | <u>106,372,093</u> | <u>95,659,583</u> | <u>55,020,601</u> | <u>46,960,021</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***24. Investment securities (continued)**

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of \$90,000 (2015: \$90,000) which have been deposited by one of the Bank's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

The Group has not reclassified any HTM securities (measured at amortised cost) to AFS securities (measured at fair value) during the year.

25. Sundry assets

| | The Group | | The Bank | |
|---------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Accounts receivable | 169,174 | 181,338 | 169,174 | 185,002 |
| Deferred charges | 1,138,379 | 1,030,625 | 1,131,356 | 1,024,132 |
| Other | 611,105 | 152,873 | 615,255 | 152,377 |
| | <u>1,918,658</u> | <u>1,364,836</u> | <u>1,915,785</u> | <u>1,361,511</u> |

26. Property, plant and equipment

| | The Group | | | | Total |
|---------------------------------|-----------------------------|------------------------|---|--------------------------|-------------------|
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor vehicles & Equipment | Capital Work-in-Progress | |
| Cost | | | | | |
| October 31, 2014 | 3,385,588 | 415,554 | 5,353,291 | 984,084 | 10,138,517 |
| Additions | 5,300 | 8,551 | 48,588 | 508,236 | 570,675 |
| Disposals | (21,600) | - | (8,499) | - | (30,099) |
| Transfers | 806,179 | 2,717 | 447,466 | (1,256,362) | - |
| Write-offs | - | - | - | (3,494) | (3,494) |
| October 31, 2015 | 4,175,467 | 426,822 | 5,840,846 | 232,464 | 10,675,599 |
| Additions | 54,066 | 5,427 | 69,949 | 516,329 | 645,771 |
| Transfers | 65,079 | 6,101 | 176,991 | (248,171) | - |
| October 31, 2016 | <u>4,294,612</u> | <u>438,350</u> | <u>6,087,786</u> | <u>500,622</u> | <u>11,321,370</u> |
| Accumulated depreciation | | | | | |
| October 31, 2014 | 584,355 | 365,167 | 3,942,450 | - | 4,891,972 |
| Charge for the year | 86,796 | 24,465 | 392,630 | - | 503,891 |
| Eliminated on disposals | (20,100) | - | (8,499) | - | (28,599) |
| October 31, 2015 | 651,051 | 389,632 | 4,326,581 | - | 5,367,264 |
| Charge for the year | 89,742 | 22,396 | 385,729 | - | 497,867 |
| October 31, 2016 | <u>740,793</u> | <u>412,028</u> | <u>4,712,310</u> | <u>-</u> | <u>5,865,131</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***26. Property, plant and equipment (continued)**

| | The Group | | | | |
|--------------------------|-----------------------------------|---------------------------|--|---------------------------------|-------------------|
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor vehicles & Equipment | Capital Work-in- Progress | Total |
| Net book values | | | | | |
| October 31, 2016 | <u>3,553,819</u> | <u>26,322</u> | <u>1,375,476</u> | <u>500,622</u> | <u>5,456,239</u> |
| October 31, 2015 | <u>3,524,416</u> | <u>37,190</u> | <u>1,514,265</u> | <u>232,464</u> | <u>5,308,335</u> |
| October 31, 2014 | <u>2,801,233</u> | <u>50,387</u> | <u>1,410,841</u> | <u>984,084</u> | <u>5,246,545</u> |
| | The Bank | | | | |
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor vehicles & Equipment | Capital Work-in- Progress | Total |
| Cost | | | | | |
| October 31, 2014 | 3,332,551 | 407,308 | 5,250,840 | 983,348 | 9,974,047 |
| Additions | 5,300 | 8,551 | 42,004 | 508,236 | 564,091 |
| Transfers | 806,179 | 2,717 | 447,466 | (1,256,362) | - |
| Write offs | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,494)</u> | <u>(3,494)</u> |
| October 31, 2015 | 4,144,030 | 418,576 | 5,740,310 | 231,728 | 10,534,644 |
| Additions | 54,066 | 5,427 | 69,949 | 516,329 | 645,771 |
| Transfers | <u>65,079</u> | <u>6,101</u> | <u>176,991</u> | <u>(248,171)</u> | <u>-</u> |
| October 31, 2016 | <u>4,263,175</u> | <u>430,104</u> | <u>5,987,250</u> | <u>499,886</u> | <u>11,180,415</u> |
| Accumulated depreciation | | | | | |
| October 31, 2014 | 554,411 | 358,119 | 3,866,814 | - | 4,779,344 |
| Charge for the year | <u>86,109</u> | <u>23,857</u> | <u>381,403</u> | <u>-</u> | <u>491,369</u> |
| October 31, 2015 | 640,520 | 381,976 | 4,248,217 | - | 5,270,713 |
| Charge for the year | <u>89,056</u> | <u>22,396</u> | <u>376,172</u> | <u>-</u> | <u>487,624</u> |
| October 31, 2016 | <u>729,576</u> | <u>404,372</u> | <u>4,624,389</u> | <u>-</u> | <u>5,758,337</u> |
| Net book values | | | | | |
| October 31, 2016 | <u>3,533,599</u> | <u>25,732</u> | <u>1,362,861</u> | <u>499,886</u> | <u>5,422,078</u> |
| October 31, 2015 | <u>3,503,510</u> | <u>36,600</u> | <u>1,492,093</u> | <u>231,728</u> | <u>5,263,931</u> |
| October 31, 2014 | <u>2,778,140</u> | <u>49,189</u> | <u>1,384,026</u> | <u>983,348</u> | <u>5,194,703</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

| 27. Intangible assets | Computer Software | |
|---------------------------|-------------------|---------------|
| | The Group | The Bank |
| Cost | | |
| October 31, 2014 | 99,399 | 58,711 |
| Additions | <u>21,487</u> | <u>10,752</u> |
| October 31, 2015 | 120,886 | 69,463 |
| Additions | <u>57,705</u> | <u>27,997</u> |
| October 31, 2016 | <u>178,591</u> | <u>97,460</u> |
| Amortisation | | |
| October 31, 2014 | 26,636 | 26,636 |
| Amortisation for the year | <u>2,504</u> | <u>2,504</u> |
| October 31, 2015 | 29,140 | 29,140 |
| Amortisation for the year | <u>2,184</u> | <u>183</u> |
| October 31, 2016 | <u>31,324</u> | <u>29,323</u> |
| Net book values | | |
| October 31, 2016 | <u>147,267</u> | <u>68,137</u> |
| October 31, 2015 | <u>91,746</u> | <u>40,323</u> |
| October 31, 2014 | <u>72,763</u> | <u>32,075</u> |

28. Retirement benefits asset/obligation

The Group has established a defined benefits pension plan covering all permanent employees of The Bank of Nova Scotia Jamaica Limited, its subsidiaries and fellow subsidiaries. The assets of the plan are held independently of the Group's assets in a separate trustee-administered fund. The fund established under the plan is valued by independent actuaries annually using the Projected Unit Credit Method.

In addition to pension benefits, the Bank offers post-employment medical and group life insurance benefits to retirees and their beneficiaries. The method of accounting and frequency of valuations are similar to those used for the defined benefits pension plan. Amounts recognised in the statement of financial position are as follows:

| | The Group and The Bank | |
|--------------------------------|------------------------|-------------------|
| | 2016 | 2015 |
| Defined benefits pension plan | 17,366,400 | 16,690,244 |
| Other post retirement benefits | (3,191,557) | (2,735,526) |
| | <u>14,174,843</u> | <u>13,954,718</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan

(i) The amounts recognised in the statement of financial position are determined as follows

| | <u>The Group and the Bank</u> | |
|--|-------------------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Present value of funded obligations | (27,555,249) | (25,031,046) |
| Fair value of plan assets | <u>50,685,637</u> | <u>45,447,182</u> |
| | 23,130,388 | 20,416,136 |
| Limitation of economic benefit | <u>(5,763,988)</u> | <u>(3,725,892)</u> |
| Asset in the statement of financial position | <u>17,366,400</u> | <u>16,690,244</u> |

(ii) Movement in the amounts recognised in the statement of financial position

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Balance at beginning of year | 16,690,244 | 11,679,613 |
| Contributions paid | 500 | 500 |
| Pension income recognised in profit or loss | 809,624 | 515,661 |
| Remeasurement recognised in other comprehensive income | <u>(133,968)</u> | <u>4,494,470</u> |
| Balance at end of year | <u>17,366,400</u> | <u>16,690,244</u> |

(iii) Movement in the present value of obligation

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|---------------------|---------------------|
| Balance at beginning of year | (25,031,046) | (21,557,388) |
| Current service costs | (593,951) | (497,228) |
| Interest cost | (2,216,053) | (2,011,014) |
| Employees' contribution | (512,313) | (505,035) |
| Benefits paid | 1,186,368 | 1,015,266 |
| Actuarial gains arising from: | | |
| Experience adjustments | (388,254) | 440,326 |
| Changes in financial assumptions | - | (1,956,846) |
| Demographic assumptions | <u>-</u> | <u>40,873</u> |
| Balance at end of year | <u>(27,555,249)</u> | <u>(25,031,046)</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan (continued)

| | <u>The Group and the Bank</u> | |
|--|-------------------------------|--------------------|
| | <u>2016</u> | <u>2015</u> |
| (iv) Movement in fair value of pension plan assets | | |
| Fair value of plan assets at beginning of year | 45,447,182 | 40,881,324 |
| Contributions | 512,813 | 505,535 |
| Benefits paid | (1,186,368) | (1,015,266) |
| Interest income on plan assets | 4,072,336 | 3,866,105 |
| Administrative fees | (117,378) | (115,991) |
| Remeasurement gain on plan assets included in other comprehensive income: | <u>1,957,052</u> | <u>1,325,475</u> |
| Fair value of plan assets at end of year | <u>50,685,637</u> | <u>45,447,182</u> |
| Plan assets consist of the following | | |
| | <u>2016</u> | <u>2015</u> |
| Government stocks and bonds | 34,590,590 | 31,780,306 |
| Quoted equities | 10,093,701 | 6,387,526 |
| Reverse repurchase agreements | 170,000 | 2,084,007 |
| Certificate of deposits | 907,630 | 921,096 |
| Real estate | 3,041,339 | 2,810,192 |
| Net current assets | <u>1,882,377</u> | <u>1,464,055</u> |
| | <u>50,685,637</u> | <u>45,447,182</u> |
| (v) Components of defined benefit income recognised in profit for the year | | |
| | <u>2016</u> | <u>2015</u> |
| Current service costs | 593,951 | 497,228 |
| Interest cost on obligation | 2,216,053 | 2,011,014 |
| Interest income on plan assets | (4,072,336) | (3,866,105) |
| Interest on effect of asset ceiling | 335,330 | 726,211 |
| Administrative fees | <u>117,378</u> | <u>115,991</u> |
| | <u>(809,624)</u> | <u>(515,661)</u> |
| (vi) Components of defined benefit income recognised in other comprehensive income | | |
| | <u>2016</u> | <u>2015</u> |
| Remeasurement of defined benefit obligations | 388,254 | 1,475,647 |
| Remeasurement of plan assets | (1,957,052) | (1,325,475) |
| Change in effect on asset ceiling | <u>1,702,766</u> | <u>(4,644,642)</u> |
| | <u>133,968</u> | <u>(4,494,470)</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan (continued)

(vii) Sensitivity analysis on projected benefits obligation

The calculation of the projected benefits obligation is sensitive to the assumptions used. The table below summarises how the projected benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analyses for each assumption, all others were held constant. The economic assumptions are somewhat linked as they are all related to inflation. Hence, for example, a 1% reduction in the long-term discount rate would cause some reduction in the medical trend rate.

| | <u>The Group and the Bank</u> | | | |
|--------------------------|-------------------------------|------------------------|------------------------|------------------------|
| | <u>2016</u> | | <u>2015</u> | |
| | 1 % <u>Decrease</u> | 1 % <u>Increase</u> | 1 % <u>Decrease</u> | 1 % <u>Increase</u> |
| Discount rate | 4,699,000 | (3,694,000) | 4,404,000 | (3,448,000) |
| Future pension increases | (2,238,000) | 2,638,000 | (2,036,000) | 2,402,000 |
| Future salary increases | <u>(1,203,000)</u> | <u>1,368,000</u> | <u>(1,177,000)</u> | <u>1,344,000</u> |

(viii) Liability duration

The average liability duration was as follows:

| | <u>The Group and the Bank</u> | |
|---|-------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Active members and all participants (years) | <u>15.8</u> | <u>16.2</u> |

(ix) The estimated pension contributions expected to be paid into the defined benefit and contribution plans during the next financial year is \$500.

(x) The principal actuarial assumptions used were as follows:

| | <u>The Group and the Bank</u> | |
|--------------------------|-------------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| Discount rate | 9.00% | 9.00% |
| Future salary increases | 6.00% | 6.00% |
| Future pension increases | <u>4.25%</u> | <u>4.25%</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(b) Medical and group life obligations recognised in the statement of financial position

(i) Movement in the present value of unfunded obligations

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|--------------------|--------------------|
| Balance at beginning of year | (2,735,526) | (3,408,465) |
| Current service costs | (148,563) | (236,940) |
| Past service costs | (29,664) | - |
| Interest cost | (243,454) | (320,809) |
| Benefits paid | 83,652 | 60,115 |
| Actuarial gains arising from: | | |
| Experience adjustments | 64,833 | 173,776 |
| Changes in financial assumptions | (182,835) | 572,648 |
| Demographic assumptions | <u>-</u> | <u>424,149</u> |
| Balance at end of year | <u>(3,191,557)</u> | <u>(2,735,526)</u> |

(ii) Components of benefit cost recognised in profit for the year

| | <u>2016</u> | <u>2015</u> |
|------------------------|----------------|----------------|
| Current service costs | 148,563 | 236,940 |
| Interest on obligation | 243,454 | 320,809 |
| Past service costs | <u>29,664</u> | <u>-</u> |
| | <u>421,681</u> | <u>557,749</u> |

(iii) Charge/(credit) recognised in other comprehensive income

| | <u>2016</u> | <u>2015</u> |
|--|----------------|--------------------|
| Experience adjustments | (64,833) | (173,776) |
| Changes in financial and demographic assumptions | <u>182,835</u> | <u>(996,797)</u> |
| Remeasurement loss on obligation | <u>118,002</u> | <u>(1,170,573)</u> |

(iv) Principal actuarial assumptions

In addition to the assumptions used for the pension plan that are applicable to the group health plan, the estimate assumes a long-term increase in health costs of 5.5% (2015:5.5%) per year.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(b) Medical and group life obligations recognised in the statement of financial position (continued)

(v) Sensitivity analysis on projected benefits obligations:

The calculation of the projected benefits obligation is sensitive to the assumptions used. The table below summarises how the projected benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analyses for each assumption, all others were held constant. The economic assumptions are somewhat linked as they are all related to inflation. Hence, for example, a 1% reduction in the long-term discount rate, would cause some reduction in the medical trend rate.

| | The Group and The Bank | | | |
|-----------------------|------------------------|------------------|-----------------|------------------|
| | 2016 | | 2015 | |
| | 1 % Increase | 1 % Decrease | 1 % Increase | 1 % Decrease |
| Discount rate | (470,000) | 604,000 | (410,000) | 527,000 |
| Health inflation rate | 552,000 | (436,000) | 500,000 | (391,000) |
| Salary increase rate | <u>12,000</u> | <u>(11,000)</u> | <u>11,000</u> | <u>(10,000)</u> |

(vi) Liability duration

The average liability duration are as follows:

| | The Group and The Bank | |
|-------------------------------------|------------------------|-------------|
| | 2016 | 2015 |
| Active members and all participants | <u>17.5</u> | <u>17.8</u> |

29. Deposits by the public

| | The Group | | The Bank | |
|------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Personal | 130,920,312 | 112,607,373 | 122,419,044 | 104,752,844 |
| Business | 117,384,936 | 96,763,781 | 116,759,069 | 96,142,355 |
| Interest payable | <u>111,133</u> | <u>90,448</u> | <u>31,100</u> | <u>27,814</u> |
| | <u>248,416,381</u> | <u>209,461,602</u> | <u>239,209,213</u> | <u>200,923,013</u> |

Deposits include \$NIL (2015: \$291,556) held as collateral for irrevocable commitments under letters of credit.

30. Due to other banks and financial institutions

These represent deposits by other banks and financial institutions as well as funds for on-lending to eligible customers in the normal course of business.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***31. Due to parent and ultimate parent company**

| | <u>The Group and The Bank</u> | |
|------------------------------|-------------------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| The Bank of Nova Scotia: | | |
| Facility I | 2,216,137 | 2,573,707 |
| Facility II | <u>2,789,001</u> | <u>3,062,329</u> |
| | 5,005,138 | 5,636,036 |
| Interest payable | <u>62,988</u> | <u>69,056</u> |
| | 5,068,126 | 5,705,092 |
| Deposits held with the Bank: | | |
| Scotia Group Jamaica Limited | 2,593,785 | 1,150,912 |
| The Bank of Nova Scotia | <u>1,809</u> | <u>2,464</u> |
| | <u>7,663,720</u> | <u>6,858,468</u> |

- (i) Facility I is a US\$ denominated twelve (12) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced May 2012, to be completed by August 2020 and is subject to a fixed interest rate of 5.63% per annum.
- (ii) Facility II is a US\$ denominated fourteen (14) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced May 2012, to be completed February 2022 and the balance is subject to a fixed interest rate of 5.95%.

The above loan facilities are insured by the Multilateral Investment Guarantee Agency.

32. Due to subsidiaries and fellow subsidiaries

These represent accounts held by subsidiaries and fellow subsidiaries in the normal course of business.

33. Other liabilities

| | <u>The Group</u> | | <u>The Bank</u> | |
|---------------------------|------------------|------------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Accrued staff benefits | 1,523,437 | 1,492,713 | 1,444,631 | 1,422,267 |
| Provisions | 436,469 | 255,541 | 434,314 | 252,193 |
| Prepaid letters of credit | - | 291,556 | - | 291,556 |
| Accrued liabilities | <u>3,189,420</u> | <u>2,490,828</u> | <u>3,106,294</u> | <u>2,390,246</u> |
| | <u>5,149,326</u> | <u>4,530,638</u> | <u>4,985,239</u> | <u>4,356,262</u> |

34. Deferred tax assets and liabilities

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The calculation is made using applicable tax rates of:

- 30% for The Scotia Jamaica Building Society;
- 25% for Scotia Jamaica Life Insurance Company Limited;
- 33½% for The Bank of Nova Scotia Jamaica Limited; and
- 25% for unregulated subsidiaries

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***34. Deferred tax assets and liabilities (continued)**

(a) The movement on the deferred income tax account is as follows:

| | The Group | | The Bank | |
|---|-------------|--------------|-------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Balances at beginning of year | (5,529,310) | (3,654,110) | (5,179,425) | (3,387,122) |
| Recognised in profit (note 14) | (60,260) | 1,959 | (60,932) | 44,833 |
| Recognised in other comprehensive income: | | | | |
| Re-measurement of defined benefits assets/obligations | 83,990 | (1,890,379) | 83,990 | (1,890,379) |
| Available-for-sale investments: | | | | |
| - fair value remeasurement | (205,785) | 4,631 | (105,012) | 44,510 |
| - transfer to profit | (1,698) | 8,589 | (1,729) | 8,733 |
| | (123,493) | (1,877,159) | (22,751) | (1,837,136) |
| Net deferred tax liability | (5,713,063) | (5,529,310) | (5,263,108) | (5,179,425) |

(b) Deferred income tax assets and liabilities are attributable to the following items:

| | The Group | | The Bank | |
|---------------------------------------|-------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Retirement benefits asset | (5,790,831) | (5,565,446) | (5,790,831) | (5,565,446) |
| Other retirement benefits obligations | 1,063,852 | 911,842 | 1,063,852 | 911,842 |
| Available-for-sale investments | (247,468) | (39,986) | (70,610) | 36,131 |
| Vacation accrued | 115,385 | 102,049 | 108,816 | 95,716 |
| Accelerated tax depreciation | (143,610) | (186,297) | (142,994) | (185,631) |
| Impairment losses on loans | (538,696) | (570,202) | (431,341) | (476,592) |
| Interest receivable | (171,695) | (185,825) | - | - |
| Other | - | 4,555 | - | 4,555 |
| Net deferred tax liability | (5,713,063) | (5,529,310) | (5,263,108) | (5,179,425) |

(c) The deferred tax charge in profit for the year comprises tax arising from the following temporary differences:

| | The Group | | The Bank | |
|--|-----------|----------|-----------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Accelerated tax depreciation | (42,688) | (25,634) | (42,637) | (25,628) |
| Pension and other post retirement benefits | 157,365 | 6,176 | 157,365 | 6,176 |
| Allowance for loan impairment | (31,506) | (46,649) | (45,251) | (19,621) |
| Vacation accrued | (13,336) | 5,665 | (13,100) | 6,428 |
| Interest receivable | (14,130) | 70,671 | - | - |
| Unrealised foreign exchange gains | - | (12,188) | - | (12,188) |
| Other | 4,555 | - | 4,555 | - |
| Total (note 14) | 60,260 | (1,959) | 60,932 | (44,833) |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***35. Policyholders' liabilities**

(a) Composition of policyholders' liabilities

| | <u>The Group</u> | |
|--|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Insurance risk reserve - Individual life | (6,607,512) | (6,225,838) |
| - Individual accident and sickness | 333,780 | 275,106 |
| - Group life | 569,872 | 577,510 |
| - Whole life | (23,332) | (37,565) |
| | <u>(5,727,192)</u> | <u>(5,410,787)</u> |
| Policyholders' fund | 49,956,739 | 48,106,599 |
| Benefits and claims payable | 170,182 | 197,069 |
| Unprocessed premiums | (9,427) | 19,445 |
| Annuity fund | <u>374,283</u> | <u>199,953</u> |
| | <u>44,764,585</u> | <u>43,112,279</u> |

(b) Movement in policyholders' liabilities

| | <u>The Group</u> | |
|--------------------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Policyholders fund: | | |
| At beginning of year | 48,106,599 | 47,293,055 |
| Gross premiums | 5,872,835 | 5,151,521 |
| Disbursements | (5,700,375) | (6,101,975) |
| Interest credited | <u>1,677,680</u> | <u>1,763,998</u> |
| At end of year | <u>49,956,739</u> | <u>48,106,599</u> |
| Benefits and claims payable: | | |
| At beginning of year | 197,069 | 148,338 |
| Claims charged during the year | 141,578 | 233,444 |
| Benefits and claims paid | (168,465) | (184,713) |
| At end of year | <u>170,182</u> | <u>197,069</u> |
| Unprocessed premiums: | | |
| At beginning of year | 19,445 | 4,999 |
| Premiums received | 8,113,102 | 7,455,327 |
| Premiums applied | (8,141,974) | (7,440,881) |
| At end of year | <u>(9,427)</u> | <u>19,445</u> |
| Annuity fund: | | |
| At beginning of year | 199,953 | 163,864 |
| Issue of new annuities | 182,290 | 39,188 |
| Payments | (21,487) | (11,943) |
| Interest credited | <u>13,527</u> | <u>8,844</u> |
| At end of year | <u>374,283</u> | <u>199,953</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***35. Policyholders' liabilities (continued)**

(b) Movement in policyholders' liabilities (continued)

| | The Group | | |
|---------------------------------|------------------------|-------------------|--------------------|
| | 2016 | | |
| | <u>Individual life</u> | <u>Group life</u> | <u>Total</u> |
| Insurance risk reserve: | | | |
| At beginning of year | (5,988,297) | 577,510 | (5,410,787) |
| Changes in assumptions and fees | (334,725) | (4,493) | (339,218) |
| Normal changes | <u>25,958</u> | <u>(3,145)</u> | <u>22,813</u> |
| At end of year | <u>(6,297,064)</u> | <u>569,872</u> | <u>(5,727,192)</u> |
| | | | |
| | 2015 | | |
| | <u>Individual life</u> | <u>Group life</u> | <u>Total</u> |
| Insurance risk reserve: | | | |
| At beginning of year | (4,849,700) | 549,015 | (4,300,685) |
| Changes in assumptions and fees | 119,059 | 1,780 | 120,839 |
| Changes to tax regime | (1,375,890) | (1,398) | (1,377,288) |
| Normal changes | <u>118,234</u> | <u>28,113</u> | <u>146,347</u> |
| At end of year | <u>(5,988,297)</u> | <u>577,510</u> | <u>(5,410,787)</u> |

36. Share capital

Authorised:

| | Number of Units ('000) | |
|-----------------------------------|------------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Ordinary shares of no par value | 3,000,000 | 3,000,000 |
| Preference shares of no par value | <u>100,000</u> | <u>100,000</u> |
| | <u>3,100,000</u> | <u>3,100,000</u> |

Issued and fully paid:

| | Number of Units ('000) | | Carrying value | |
|----------------------|------------------------|------------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Ordinary stock units | <u>2,927,232</u> | <u>2,927,232</u> | <u>2,927,232</u> | <u>2,927,232</u> |

37. Reserve fund

In accordance with the Banking Services Act, 2014 and regulations under which it operates, the Bank is required to make transfers of a minimum of 15% of net profit, until the amount in the fund is equal to 50% of the paid-up capital of the Bank and thereafter, 10% of the net profits until the reserve fund is equal to its paid-up capital.

The Building Society is required to make transfers of a minimum of 10% of net profit, until the amount at the credit of the reserve fund is equal to the total of the amount paid up on its capital shares and the amount of its deferred shares.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***38. Retained earnings reserve**

The Banking Services Act, 2014 permits transfers from the Bank's net profit to retained earnings reserve, which constitutes a part of the capital base. Transfers to the retained earnings reserve are made at the discretion of the Board of Directors. Such transfers must be notified to Bank of Jamaica and any reversal must be approved by Bank of Jamaica.

39. Cumulative remeasurement gains from available-for-sale securities

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investment securities.

40. Capital reserve

| | <u>The Group</u> | | <u>The Bank</u> | |
|--|------------------|--------------|-----------------|---------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Liquidation of Scotia Jamaica General Insurance Brokers Limited | 9,383 | 9,383 | 9,383 | 9,383 |
| Dissolution of SDBG Merchant Bank Limited | - | - | <u>32,704</u> | <u>32,704</u> |
| | <u>9,383</u> | <u>9,383</u> | <u>42,087</u> | <u>42,087</u> |

41. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over the amount determined under IFRS requirements (note 23).

42. Other reserves

This represents reserves arising on consolidation of subsidiaries, net.

43. Related party transactions and balances

The Group is controlled by Scotia Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotiabank 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 company.

Parties are considered to be related if one party has the ability to control or exercise significant influence over 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, including companies connected by virtue of common directorships, in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

Pursuant to Sections 58(3) and 57(1) of the Banking Services Act, 2014, connected companies include companies that have directors in common with the Bank and/or its subsidiaries. Related party credit facilities in excess of the limits set out in Sections 58(3) and 57(1), subject to the maximum of the limits in Section 59(1) of the Banking Services Act, 2014, are supported by guarantees issued by the parent company.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Related party transactions and balances (continued)**

Related party transactions with the ultimate parent company comprise the payment of dividends, management fees, guarantee fees, centralised computing and other service fees. There was no balance due to the ultimate parent company, other than the loans payable set out in note 31. No impairment losses 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:

| | The Group | | | | | |
|---|-------------------|---------------------|--|---------------------|-------------------|-------------------|
| | Ultimate parent | Fellow subsidiaries | Directors and key management personnel | Connected companies | Total | |
| | | | | | 2016 | 2015 |
| Loans | | | | | | |
| Balance at October 31 | - | - | 602,841 | 2,307,386 | 2,910,227 | 1,096,994 |
| Interest earned | - | - | 48,361 | 116,466 | 164,827 | 83,832 |
| Deposit liabilities | | | | | | |
| Balance at October 31 | 7,600,732 | 6,455,117 | 522,608 | 3,301,383 | 17,879,840 | 14,948,553 |
| Interest expense | 321,426 | 180,052 | 207,416 | 25,852 | 734,746 | 571,957 |
| Investments/Repurchase agreements | | | | | | |
| Securities purchased under repurchase agreements | - | 2,680,000 | - | - | 2,680,000 | 2,776,067 |
| Interest received on repurchase agreements | - | 156,331 | - | - | 156,331 | 183,593 |
| Other investments | - | 707,603 | - | - | 707,603 | 2,368,528 |
| Interest earned on other investments | - | - | - | - | - | 74,437 |
| Deposits with Banks | | | | | | |
| Due from banks and other financial institutions | 366,386 | 22,469,966 | - | - | 22,836,352 | 9,820,773 |
| Interest earned from banks and other financial institutions | 177 | 73,166 | - | - | 73,343 | 25,652 |
| Other | | | | | | |
| Fees and commission (paid)/earned | - | (6,000) | 114 | 12,160 | 6,274 | 13,192 |
| Insurance products | - | - | 21,148 | - | 21,148 | 32,810 |
| Technical service fees (paid)/received | (1,170,919) | 28,061 | - | - | (1,142,858) | (1,182,097) |
| Other operating (expense) /income | <u>(819,896)</u> | <u>40,120</u> | <u>-</u> | <u>-</u> | <u>(779,776)</u> | <u>(443,819)</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Related party transactions and balances (continued)**

| | The Bank | | | | | |
|--|---------------------------|-------------------------------|---|-------------------------------|--------------|-----------------|
| | Ultimate <u>parent</u> | Fellow <u>subsidiaries</u> | Directors and key <u>management personnel</u> | Connected <u>companies</u> | <u>Total</u> | |
| | | | | | <u>2016</u> | <u>2015</u> |
| Loans | | | | | | |
| Balance at October 31 | - | 600,000 | 454,971 | 2,307,386 | 3,362,357 | 1,504,712 |
| Interest income earned | - | 55,652 | 31,078 | 116,466 | 203,196 | 116,002 |
| Deposit liabilities | | | | | | |
| Balance at October 31 | 7,600,732 | 4,273,558 | 515,053 | 3,301,382 | 15,690,725 | 14,859,704 |
| Interest expense | 321,426 | 63,102 | 207,327 | 25,851 | 617,706 | 531,160 |
| Investments/Repurchase agreements | | | | | | |
| Securities purchased under repurchase agreements | - | 969,000 | - | - | 969,000 | 1,320,000 |
| Interest received on repurchase agreements | - | 78,268 | - | - | 78,268 | 89,984 |
| Other investments | - | - | - | - | - | 1,793,633 |
| Interest earned on other investments | - | - | - | - | - | 74,437 |
| Deposit assets | | | | | | |
| Due from banks and other financial institutions | 366,386 | 22,469,967 | - | - | 22,836,353 | 9,820,773 |
| Interest earned from banks and other financial institutions | 177 | 73,166 | - | - | 73,343 | 25,652 |
| Due from fellow subsidiaries | - | 5,339 | - | - | 5,339 | 6,973 |
| Other | | | | | | |
| Fees and commission earned | - | 3,987 | 114 | 12,160 | 16,261 | 20,385 |
| Technical service fees (paid)/received | (1,061,741) | 80,461 | - | - | (981,280) | (1,032,358) |
| Other operating (expense)/income | (819,896) | 3,949,274 | - | (5,145) | 3,124,233 | 716,731 |
| | | | | | | |
| | | | | <u>The Group</u> | | <u>The Bank</u> |
| | | | | <u>2016</u> | <u>2015</u> | <u>2016</u> |
| | | | | | | <u>2015</u> |
| Key management compensation | | | | | | |
| Salaries and other short term benefits | | | | 734,438 | 614,935 | 615,224 |
| Post-employment benefits | | | | (104,068) | (335,271) | (104,068) |
| | | | | | | (335,271) |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management****(a) Overview and risk management framework**

The Group's principal business activities result in significant financial instruments, which involves analysis, evaluation and management of some degree of risk or combination of risks. The principal financial risks that arise from transacting financial instruments include credit risk, market risk and liquidity risks. The Group's framework to monitor, evaluate and manage these risks are as follows:

- extensive risk management policies define the Group's risk appetite, set the limits and controls within which the Group operate, and reflect the requirements of regulatory authorities. These policies are approved by the Group's Board of Directors, either directly or through the Executive and Enterprise Risk Committee.
- guidelines are developed to clarify risk limits and conditions under which the Group's risk policies are implemented.
- processes are implemented to identify, evaluate, document, report and control risk.
- compliance with risk policies, limits and guidelines is measured, monitored and reported to ensure consistency against desired goals.

The Group 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 Group's risk management framework. The Board has established committees for managing and monitoring risks.

The key committees for managing and monitoring risks are as follows:

(i) Board Audit Committee

The Board Audit Committee is comprised of independent directors. This committee oversees the integrity of the Group's financial reporting, compliance with legal and regulatory requirements, the performance of the Group's internal audit function and external auditors, as well as the system of internal controls over financial reporting. The Audit Committee reviews the quarterly and annual financial statements, examining significant issues regarding the financial results, accounting principles and policies, as well as management estimates and assumptions, for recommendation to the Board for approval. This committee is assisted in its oversight role by the Internal Audit Department, which undertakes reviews of risk management controls and procedures.

(ii) Executive and Enterprise Risk Committee

The Executive and Enterprise Risk Committee reviews and recommends to the Board for approval, the risk management policies, limits, procedures and standards. This involves review of the quarterly reports on the Group's enterprise wide risk profile, including credit, market, operational and liquidity risks. This Committee also oversees the corporate strategy and profit plans for the Group, as well as develops and makes recommendations for improvement of the corporate governance policies and procedures.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(a) Overview and risk management framework (continued)****(iii) Asset and Liability Committee**

The Asset and Liability Committee (ALCO), a committee of management, has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once monthly to review risks, evaluate performance and provide strategic direction. The Committee reviews investment, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Group's investment and loan portfolios and that appropriate limits are being adhered to.

The Investment Advisory Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, where it provides a specialised focus due to the nature of the insurance business.

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

(b) Credit risk**(i) Credit risk management**

At a strategic level, the Group 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. Credit risk limits are approved 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, exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The principal collateral types for loans are:

- Cash;
- Charges over personal and business assets such as property, motor vehicles, equipment, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

In addition, the Group seeks additional collateral from the counterparty as soon as impairment indicators are noted for the relevant loans.

The Group's policy requires the review of individual financial assets that are above materiality thresholds annually or more regularly when individual circumstances require. Impairment allowances are consistent with policies outlined in note 2(q).

The Group further manages its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with unfavourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(b) Credit risk (continued)****(ii) Credit-related commitments**

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to make drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than direct lending.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(iii) Credit quality

The Group's credit risk rating systems are designed to support the determination of key credit risk parameter estimates which measures credit and transaction risks.

Commercial loans: In measuring credit risk of commercial loans at the counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison to externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

| <u>The Group's rating</u> | <u>External rating : Standard & Poor's equivalent</u> |
|----------------------------------|--|
| Excellent | AAA to AA+ |
| Very Good | AA to A+ |
| Good | A to A- |
| Acceptable | BBB+ to BB+ |
| Higher Risk | BB and under |

Retail loans: Retail loans are risk-rated based on an internal scoring system which combines statistical analysis with credit officer judgment, and fall within the following categories:

- Excellent
- Good
- Higher risk

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)**

The table below shows the percentage of the loan portfolio as at the reporting date relating to loans and credit commitments for each of the internal rating categories:

| | Loans and credit commitments | | | |
|-------------|------------------------------|--------------|--------------|--------------|
| | The Group | | The Bank | |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| | % | % | % | % |
| Excellent | 24.9 | 25.0 | 18.1 | 18.5 |
| Very Good | 4.1 | 4.9 | 4.9 | 5.8 |
| Good | 25.1 | 24.8 | 23.5 | 23.4 |
| Acceptable | 9.6 | 7.5 | 11.4 | 8.8 |
| Higher Risk | <u>36.3</u> | <u>37.8</u> | <u>42.1</u> | <u>43.5</u> |
| | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

Under the Bank of Jamaica Credit Classification, Provisioning and Non Accrual Requirements, the following classifications are used:

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 Group'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.

Using these classifications to rate credit quality, the credit profile of the Group's and Bank's loan portfolios would be as set out in the following table:

| | The Group | | The Bank | |
|-----------------|--------------|--------------|--------------|--------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| | % | % | % | % |
| Standard | 88.8 | 87.2 | 87.4 | 85.6 |
| Special Mention | 8.5 | 9.8 | 10.1 | 11.5 |
| Sub-Standard | 1.3 | 1.3 | 1.1 | 1.2 |
| Doubtful | 0.3 | 0.4 | 0.3 | 0.4 |
| Loss | <u>1.1</u> | <u>1.3</u> | <u>1.1</u> | <u>1.3</u> |
| | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)**

Debt securities: 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:

| | <u>The Group</u> | | <u>The Bank</u> | |
|---|--------------------|--------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| AAA to AA+ | 6,303,729 | 3,211,672 | 4,174,215 | 3,211,672 |
| AA to A+ | 12,625,548 | 11,588,061 | 12,625,548 | 11,588,061 |
| A to A- | 6,024,418 | 7,873,187 | 6,024,418 | 7,873,187 |
| BBB+ to BB+ | 2,985,010 | 1,465,086 | 2,985,010 | 1,465,086 |
| BB to B- | 86,002,297 | 83,183,480 | 35,565,540 | 33,348,805 |
| Unrated | - | 736,590 | - | - |
| | <u>113,941,002</u> | <u>108,058,076</u> | <u>61,374,731</u> | <u>57,486,811</u> |
| <i>Classified as follows:</i> | | | | |
| Deposits with Bank of Jamaica | 7,390,719 | 5,555,901 | 4,508,052 | 2,514,623 |
| Investment securities | | | | |
| Held-to-maturity | 5,404,231 | 9,346,466 | - | - |
| Available-for-sale | 100,055,096 | 85,348,088 | 54,979,014 | 46,884,728 |
| Pledged assets | | | | |
| Available for sale | 890,898 | 7,422,726 | 1,851,183 | 8,017,272 |
| Financial assets at fair value through profit or loss | 200,058 | 384,895 | 36,482 | 70,188 |
| | <u>113,941,002</u> | <u>108,058,076</u> | <u>61,374,731</u> | <u>57,486,811</u> |

(iv) Maximum exposure to credit risk

The maximum exposure to credit risk is the amount before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees were called upon. For loan 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.

Collateral and other credit enhancements held against loans

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(b) Credit risk (continued)****(iv) Maximum exposure to credit risk (continued)**

The Group holds collateral against credits to borrowers primarily in the form of cash, motor vehicles, real estate, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities. Estimates of fair values are based on 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 and guarantees is \$124,373,440 (2015: \$117,695,641) for the Group and \$97,744,737 (2015: \$94,251,964) for the Bank.

(v) Concentration of exposure to credit risk**(1) Loans and customer liabilities under acceptance, guarantees and letters of credit.**

The following table summarises credit exposure for loans and customer liabilities under acceptances, guarantees and letters of credit at their carrying amounts, as categorised by industry sectors. These credit facilities are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

| | The Group | | | |
|---|--------------------|--|-----------------------|-----------------------|
| | <u>Loans</u> | Acceptances, Guarantees and Letters of Credit | <u>Total 2016</u> | <u>Total 2015</u> |
| Agriculture, fishing and mining | 995,488 | 287,784 | 1,283,272 | 1,046,625 |
| Construction and real estate | 2,883,670 | 207,164 | 3,090,834 | 3,947,369 |
| Distribution | 13,798,484 | 1,217,964 | 15,016,448 | 13,964,615 |
| Financial institutions | 3,493,252 | 656,000 | 4,149,252 | 4,753,352 |
| Government and public entities | 17,222,766 | 1,664,972 | 18,887,738 | 18,262,147 |
| Manufacturing | 6,545,664 | 96,140 | 6,641,804 | 7,056,211 |
| Transportation, electricity, water and other | 6,199,098 | 177,531 | 6,376,629 | 6,826,818 |
| Personal | 101,637,790 | 1,278,193 | 102,915,983 | 91,579,324 |
| Professional and other services | 8,209,421 | 591,664 | 8,801,085 | 8,982,932 |
| Tourism and entertainment | 5,939,852 | 151,876 | 6,091,728 | 5,607,253 |
| Interest receivable | <u>1,086,065</u> | - | <u>1,086,065</u> | <u>1,057,391</u> |
| Total | <u>168,011,550</u> | <u>6,329,288</u> | 174,340,838 | 163,084,037 |
| Total impairment allowance) | | | <u>(1,857,966)</u> | <u>(1,874,093)</u> |
| | | | <u>172,482,872</u> | <u>161,209,944</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(b) Credit risk (continued)****(v) Concentration of exposure to credit risk (continued)****(1) Loans and customer liabilities under acceptance, guarantees and letters of credit (continued)**

| | The Bank | | | |
|---|--------------------|--|-----------------------|-----------------------|
| | <u>Loans</u> | Acceptances, Guarantees and Letters of Credit | <u>Total 2016</u> | <u>Total 2015</u> |
| Agriculture, fishing and mining | 995,488 | 287,784 | 1,283,272 | 1,046,624 |
| Construction and real estate | 2,883,670 | 207,164 | 3,090,834 | 3,947,371 |
| Distribution | 13,798,484 | 1,217,964 | 15,016,448 | 13,964,615 |
| Financial institutions | 4,278,695 | 656,000 | 4,934,695 | 5,353,350 |
| Government and public entities | 17,222,767 | 1,664,972 | 18,887,739 | 18,262,147 |
| Manufacturing | 6,545,664 | 96,140 | 6,641,804 | 7,056,211 |
| Transportation, electricity, water and other | 6,199,098 | 177,531 | 6,376,629 | 6,826,819 |
| Personal | 74,378,326 | 476,557 | 74,854,883 | 66,978,908 |
| Professional and other services | 8,209,421 | 591,664 | 8,801,085 | 8,982,932 |
| Tourism and entertainment | 5,939,852 | 151,876 | 6,091,728 | 5,607,253 |
| Interest receivable | 859,344 | - | 859,344 | 845,135 |
| Total | <u>141,310,809</u> | <u>5,527,652</u> | 146,838,461 | 138,871,365 |
| Total impairment allowance | | | (1,630,143) | (1,692,466) |
| | | | <u>145,208,318</u> | <u>137,178,899</u> |

(2) Debt securities and amounts due from other banks

The following table summarises credit exposure for debt securities and amounts due from other banks at their carrying amounts, as categorised by issuer:

| | The Group | | The Bank | |
|------------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Government of Jamaica | 72,649,170 | 74,784,301 | 26,042,065 | 29,027,983 |
| Bank of Jamaica | 42,146,527 | 28,410,128 | 37,107,206 | 25,277,349 |
| Financial institutions | 60,245,301 | 39,605,113 | 58,369,809 | 37,594,708 |
| Corporate and other | <u>25,809,191</u> | <u>24,887,203</u> | <u>25,809,191</u> | <u>24,138,007</u> |
| | <u>200,850,189</u> | <u>167,686,745</u> | <u>147,328,271</u> | <u>116,038,047</u> |

Other than exposure on Government of Jamaica securities, there is no significant concentration of credit risk related to debt securities. For securities purchased under resale agreements, titles to securities are transferred to the Group for the duration of the agreement.

(c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices and foreign exchange rates), correlations between them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board. The Executive and Enterprise Risk Committee oversee the application of the framework set by the Board, and monitor the Group's market risk exposures and the activities that give rise to these exposures.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)**

The Group uses various metrics and models to measure and control market risk exposures. The measurements used are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Value at Risk (VaR), stress testing, sensitivity analysis and simulation modeling, and gap analysis. The Board reviews results from these metrics quarterly.

The management of the individual elements of market risks – interest rate and currency risk – is as follows:

(i) Interest rate risk

Interest rate risk is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; changes in the market price of credit; and the creditworthiness of a particular issuer. The Group actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Group's funding and investment activities is managed in accordance with Board-approved policies and limits, which are designed to control the risk to net interest income and economic value of shareholders' equity. The income limit measures the effect of a specified shift in interest rates on the Group's annual net income over the next twelve months, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Group's net assets. Interest rate exposures in individual currencies are also controlled by gap limits.

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. Stress testing scenarios are also important for managing risk in the Group's portfolios.

The following tables summarise carrying amounts of assets, liabilities and equity in order to arrive at the Group's and the Bank's interest rate gap, based on the earlier of contractual repricing and maturity dates.

| | The Group | | | | | | |
|--|--------------------------------------|--------------------|-------------------|-------------------|-------------------|-----------------------|--------------------|
| | 2016 | | | | | | |
| | (1) Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash resources | 12,303,763 | 45,798,116 | 199,649 | - | - | 37,108,041 | 95,409,569 |
| Financial asset at fair value through profit or loss | - | - | - | 200,058 | - | - | 200,058 |
| Securities purchased under resale agreement | 820,000 | 2,680,000 | - | - | - | 5,818 | 3,505,818 |
| Pledged assets | - | 883,513 | - | - | - | 7,385 | 890,898 |
| Loans (3) | 13,479,748 | 74,817,368 | 24,116,272 | 42,935,023 | 8,564,587 | 2,240,586 | 166,153,584 |
| Investment securities (2) | - | 52,375,747 | 16,115,281 | 31,067,598 | 4,895,831 | 1,717,578 | 106,172,035 |
| Other assets | - | - | - | - | - | 32,225,555 | 32,225,555 |
| Total assets | 26,603,511 | 176,554,744 | 40,431,202 | 74,202,679 | 13,460,418 | 73,304,963 | 404,557,517 |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

| | The Group | | | | | | |
|--|--------------------------------------|----------------------|---------------------|-------------------|-------------------|-----------------------|--------------------|
| | 2016 | | | | | | |
| | (1) Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Deposits by the public | 237,021,512 | 16,306,752 | 8,291,665 | 5,770,600 | 307,805 | 752,805 | 268,451,139 |
| Other liabilities | - | - | - | - | - | 23,707,554 | 23,707,554 |
| Policy-holders' liabilities | 35,353,281 | 3,190,453 | 11,413,004 | - | - | (5,192,153) | 44,764,585 |
| Stockholders' equity | - | - | - | - | - | 67,634,239 | 67,634,239 |
| Total liabilities and stockholders' equity | <u>272,374,793</u> | <u>19,497,205</u> | <u>19,704,669</u> | <u>5,770,600</u> | <u>307,805</u> | <u>86,902,445</u> | <u>404,557,517</u> |
| Total interest rate sensitivity gap | (245,771,282) | 157,057,539 | 20,726,533 | 68,432,079 | 13,152,613 | (13,597,482) | - |
| Cumulative gap | (245,771,282) | (88,713,743) | (67,987,210) | 444,869 | 13,597,482 | - | - |
| | 2015 | | | | | | |
| | (1) Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Total assets | 14,505,389 | 158,646,981 | 44,043,674 | 76,399,144 | 7,760,000 | 56,912,933 | 358,268,121 |
| Total liabilities and stockholders' equity | <u>227,651,003</u> | <u>27,263,340</u> | <u>18,314,558</u> | <u>5,834,438</u> | <u>803,460</u> | <u>78,401,322</u> | <u>358,268,121</u> |
| Total interest rate sensitivity gap | (213,145,614) | 131,383,641 | 25,729,116 | 70,564,706 | 6,956,540 | (21,488,389) | - |
| Cumulative gap | (213,145,614) | (81,761,973) | (56,032,857) | 14,531,849 | 21,488,389 | - | - |
| | The Bank | | | | | | |
| | 2016 | | | | | | |
| | (1) Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash resources | 12,981,722 | 43,090,791 | - | - | - | 36,301,038 | 92,373,551 |
| Financial asset at fair value through profit or loss | - | - | - | 36,482 | - | - | 36,482 |
| Securities purchased under resale agreements | 820,000 | 1,880,000 | - | - | - | 3,520 | 2,703,520 |
| Pledged assets | - | 1,840,190 | - | - | - | 10,993 | 1,851,183 |
| Loans (3) | 13,326,795 | 58,790,960 | 16,027,793 | 41,711,867 | 8,541,986 | 1,281,265 | 139,680,666 |
| Investment securities (2) | - | 26,886,882 | 5,656,054 | 19,848,165 | 2,231,528 | 361,490 | 54,984,119 |
| Investment in subsidiaries | - | - | - | - | - | 220,000 | 220,000 |
| Other assets | - | - | - | - | - | 30,636,231 | 30,636,231 |
| Total assets | <u>27,128,517</u> | <u>132,488,823</u> | <u>21,683,847</u> | <u>61,596,514</u> | <u>10,773,514</u> | <u>68,814,537</u> | <u>322,485,752</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

| | The Bank | | | | | | |
|---|--------------------------------------|----------------------|---------------------|---------------------|-------------------|-----------------------|--------------------|
| | 2016 | | | | | | |
| | (1) Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Deposits by the public | 230,819,956 | 10,947,011 | 5,669,018 | 4,441,484 | 307,805 | 94,288 | 252,279,562 |
| Securities purchased under resale agreements | - | 911,000 | - | - | - | 2,049 | 913,049 |
| Other liabilities | - | - | - | - | - | 22,084,087 | 22,084,087 |
| Stockholders' equity | - | - | - | - | - | 47,209,054 | 47,209,054 |
| Total liabilities and stockholders' equity | <u>230,819,956</u> | <u>11,858,011</u> | <u>5,669,018</u> | <u>4,441,484</u> | <u>307,805</u> | <u>69,389,478</u> | <u>322,485,752</u> |
| Total interest rate sensitivity gap | <u>(203,691,439)</u> | <u>120,630,812</u> | <u>16,014,829</u> | <u>57,155,030</u> | <u>10,465,709</u> | <u>(574,941)</u> | <u>-</u> |
| Cumulative gap | <u>(203,691,439)</u> | <u>(83,060,627)</u> | <u>(67,045,798)</u> | <u>(9,890,768)</u> | <u>574,941</u> | <u>-</u> | <u>-</u> |

| | The Bank | | | | | | |
|--|--------------------------------------|---------------------|---------------------|-------------------|------------------|-----------------------|--------------------|
| | 2015 | | | | | | |
| | (1) Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Total assets | 14,504,582 | 116,183,009 | 29,286,829 | 64,328,808 | 2,986,950 | 53,667,307 | 280,957,485 |
| Total liabilities and- stockholders' equity | <u>188,764,602</u> | <u>20,487,310</u> | <u>4,748,257</u> | <u>4,772,011</u> | <u>803,460</u> | <u>61,381,845</u> | <u>280,957,485</u> |
| Total interest rate and sensitivity gap | <u>(174,260,020)</u> | <u>95,695,699</u> | <u>24,538,572</u> | <u>59,556,797</u> | <u>2,183,490</u> | <u>(7,714,538)</u> | <u>-</u> |
| Cumulative gap | <u>(174,260,020)</u> | <u>(78,564,321)</u> | <u>(54,025,749)</u> | <u>5,531,048</u> | <u>7,714,538</u> | <u>-</u> | <u>-</u> |

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, base rate loans.

(2) This includes financial instruments such as equity investments.

(3) This includes impaired loans.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

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

| | The Group | | | | | |
|--|------------------------------------|-------------------------|------------------------|----------------------|----------------------|--------------------------|
| | 2016 | | | | | |
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted Average % |
| ASSETS: | | | | | | |
| Cash resources | 1.15 | 1.04 | 6.23 | - | - | 1.08 |
| Investment securities (1) | - | 5.54 | 5.34 | 4.45 | 9.77 | 5.38 |
| Securities purchased under resale agreements | 6.50 | 5.26 | - | - | - | 5.55 |
| Pledged assets | - | 5.55 | - | - | - | 5.55 |
| Loans (2) | 14.25 | 17.01 | 11.59 | 13.14 | 9.36 | 14.57 |
| Financial assets at fair value through profit or loss | - | - | - | 7.14 | - | 7.14 |
| LIABILITIES: | | | | | | |
| Deposits (3) | 0.58 | 2.25 | 2.77 | 4.97 | 6.12 | 0.85 |
| Policyholders' liabilities | 3.07 | 3.94 | 3.99 | - | - | 3.34 |
| 2015 | | | | | | |
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted Average % |
| ASSETS: | | | | | | |
| Cash resources | 1.56 | 0.65 | 1.28 | - | - | 0.61 |
| Investment securities (1) | - | 6.40 | 5.89 | 3.63 | 10.77 | 5.63 |
| Securities purchased under resale agreements | - | 6.17 | - | - | - | 6.17 |
| Pledged assets | - | 6.55 | - | - | - | 6.55 |
| Loans (2) | 14.33 | 17.13 | 11.85 | 13.94 | 9.47 | 14.90 |
| Financial assets at fair value through profit or loss | - | - | - | 7.25 | - | 7.25 |
| LIABILITIES: | | | | | | |
| Deposits (3) | 0.75 | 2.52 | 2.43 | 5.26 | 6.00 | 1.08 |
| Securities sold under repurchase agreements | - | 7.90 | - | - | - | 7.90 |
| Policyholders' liabilities | <u>3.56</u> | <u>4.18</u> | <u>4.23</u> | <u>-</u> | <u>-</u> | <u>3.77</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

| | The Bank | | | | | |
|---|------------------------------------|-------------------------|------------------------|----------------------|----------------------|--------------------------|
| | 2016 | | | | | |
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
| ASSETS: | | | | | | |
| Cash resources | 1.09 | 0.80 | - | - | - | 0.86 |
| Investment securities (1) | - | 4.98 | 3.65 | 2.34 | 7.78 | 4.00 |
| Securities purchased | | | | | | |
| under resale agreements | 6.50 | 5.25 | - | - | - | 5.63 |
| Pledged assets | - | 5.79 | - | - | - | 5.79 |
| Loans (2) | 14.27 | 18.81 | 12.48 | 13.21 | 9.35 | 15.37 |
| Financial assets at fair value through profit and loss | - | - | - | 6.64 | - | 6.64 |
| LIABILITIES: | | | | | | |
| Deposits (3) | 0.46 | 1.26 | 2.07 | 5.81 | 6.12 | 0.63 |
| Securities sold under repurchase agreements | - | 5.25 | - | - | - | 5.25 |
| 2015 | | | | | | |
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
| ASSETS: | | | | | | |
| Cash resources | - | 0.31 | 0.45 | - | - | 0.33 |
| Investment securities (1) | - | 6.07 | 5.08 | 1.51 | 7.15 | 3.76 |
| Securities purchased | | | | | | |
| under resale agreements | - | 6.22 | - | - | - | 6.22 |
| Pledged assets | - | 6.55 | - | 7.64 | - | 6.57 |
| Loans (2) | 14.33 | 19.01 | 12.84 | 14.00 | 9.46 | 15.92 |
| Financial assets at fair value through profit and loss | - | - | - | 7.25 | - | 7.25 |
| LIABILITIES: | | | | | | |
| Deposits (3) | 0.62 | 2.41 | 2.37 | 5.76 | 6.00 | 0.92 |
| Securities sold under repurchase agreements | - | 7.71 | - | - | - | 7.71 |

(1) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.

(2) Yields are based on book values and contractual interest rates.

(3) Yields are based on contractual interest rates.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)****Sensitivity to interest rate movements**

The following shows the sensitivity to interest rate movements using scenarios that are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as 2015.

| | 2016 | | 2015 | |
|--------------------------------|-----------------------------|------------------|-----------------------------|------------------|
| | The Group | | The Bank | |
| | 2016 | 2015 | 2016 | 2015 |
| JMD Interest rates | Increase/decrease by 200bps | | Increase/decrease by 300bps | |
| USD Interest rates | Increase/decrease by 75bps | | Increase/decrease by 50bps | |
| Effect on profit | 1,250,446 | 1,270,664 | 858,528 | 652,694 |
| Effect on Stockholders' equity | <u>3,793,312</u> | <u>3,582,791</u> | <u>3,683,236</u> | <u>3,717,076</u> |

(ii) Currency risk

The Group has an exposure to the effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The main currencies giving rise to this risk are the USD, CAD, GBP, and EUR. The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The tables below summarise the exposure to relevant currencies:

| JMD Equivalent | The Group | | | | | | |
|---|--------------------|--------------------|------------------|------------------|----------------|---------------|--------------------|
| | 2016 | | | | | | |
| | JMD | USD | CAD | GBP | EUR | OTHER | TOTAL |
| ASSETS | | | | | | | |
| Cash resources | 29,843,059 | 56,562,079 | 3,173,509 | 5,213,637 | 523,313 | 93,972 | 95,409,569 |
| Financial assets at fair value through profit or loss | 200,058 | - | - | - | - | - | 200,058 |
| Government securities purchased under resale agreements | 3,505,818 | - | - | - | - | - | 3,505,818 |
| Pledged assets | 890,898 | - | - | - | - | - | 890,898 |
| Loans | 140,062,810 | 26,047,672 | 22,920 | 4 | 20,178 | - | 166,153,584 |
| Investments | 76,161,529 | 30,010,506 | - | - | - | - | 106,172,035 |
| Other assets | <u>29,531,358</u> | <u>2,575,908</u> | <u>10,622</u> | <u>(109)</u> | <u>107,776</u> | <u>-</u> | <u>32,225,555</u> |
| | <u>280,195,530</u> | <u>115,196,165</u> | <u>3,207,051</u> | <u>5,213,532</u> | <u>651,267</u> | <u>93,972</u> | <u>404,557,517</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

| | The Group | | | | | | |
|---|--------------------------|---------------------------|---------------------------|-------------------------|---------------------|----------------------|--------------------------|
| | 2016 | | | | | | |
| | <u>JMD</u> | <u>USD</u> | <u>CAD</u> | <u>GBP</u> | <u>EUR</u> | <u>OTHER</u> | <u>TOTAL</u> |
| JMD Equivalent | | | | | | | |
| LIABILITIES | | | | | | | |
| Deposits, due to financial institutions, parent and fellow subsidiaries | 149,653,634 | 110,267,093 | 3,034,715 | 5,086,310 | 408,975 | 412 | 268,451,139 |
| Other liabilities | 20,128,911 | 3,256,505 | 66,359 | 11,674 | 235,071 | 9,034 | 23,707,554 |
| Policyholders liabilities | <u>44,764,585</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>44,764,585</u> |
| | <u>214,547,130</u> | <u>113,523,598</u> | <u>3,101,074</u> | <u>5,097,984</u> | <u>644,046</u> | <u>9,446</u> | <u>336,923,278</u> |
| NET POSITION | <u>65,648,400</u> | <u>1,672,567</u> | <u>105,977</u> | <u>115,548</u> | <u>7,221</u> | <u>84,526</u> | <u>67,634,239</u> |
| | | | | | | | |
| | The Group | | | | | | |
| | 2015 | | | | | | |
| | <u>JMD</u> | <u>USD</u> | <u>CAD</u> | <u>GBP</u> | <u>EUR</u> | <u>OTHER</u> | <u>TOTAL</u> |
| JMD Equivalent | | | | | | | |
| ASSETS | | | | | | | |
| Cash resources | 23,925,788 | 33,086,851 | 2,812,063 | 5,744,729 | 370,124 | 49,325 | 65,988,880 |
| Financial assets at fair value through profit or loss | 384,895 | - | - | - | - | - | 384,895 |
| Government securities purchased under resale agreements | 2,937,121 | - | - | - | - | - | 2,937,121 |
| Pledged assets | 7,422,726 | - | - | - | - | - | 7,422,726 |
| Loans | 126,073,834 | 27,736,570 | 148,832 | 2 | 37,291 | - | 153,996,529 |
| Investments | 69,598,767 | 25,675,921 | - | - | - | - | 95,274,688 |
| Other assets | <u>29,206,460</u> | <u>2,818,806</u> | <u>629</u> | <u>52,062</u> | <u>147,099</u> | <u>38,226</u> | <u>32,263,282</u> |
| | <u>259,549,591</u> | <u>89,318,148</u> | <u>2,961,524</u> | <u>5,796,793</u> | <u>554,514</u> | <u>87,551</u> | <u>358,268,121</u> |
| LIABILITIES | | | | | | | |
| Deposits, due to financial institutions, parent and fellow subsidiaries | 131,349,422 | 86,577,774 | 5,518,809 | 3,032,221 | 459,407 | 406 | 226,938,039 |
| Other liabilities | 22,954,471 | 4,864,480 | 64,684 | 25,491 | 95,347 | 11,846 | 28,016,319 |
| Policyholders liabilities | <u>43,112,279</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>43,112,279</u> |
| | <u>197,416,172</u> | <u>91,442,254</u> | <u>5,583,493</u> | <u>3,057,712</u> | <u>554,754</u> | <u>12,252</u> | <u>298,066,637</u> |
| NET POSITION | <u>62,133,419</u> | <u>(2,124,106)</u> | <u>(2,621,969)</u> | <u>2,739,081</u> | <u>(240)</u> | <u>75,299</u> | <u>60,201,484</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

The tables below summarize exposure to relevant currencies (continued):

| | The Bank | | | | | | |
|---|--------------------|--------------------|------------------|------------------|----------------|---------------|--------------------|
| | 2016 | | | | | | |
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | OTHER | TOTAL |
| ASSETS | | | | | | | |
| Cash resources | 26,840,290 | 56,529,306 | 3,173,509 | 5,213,161 | 523,313 | 93,972 | 92,373,551 |
| Financial assets at fair value through profit or loss | 36,482 | - | - | - | - | - | 36,482 |
| Government securities purchased under resale agreements | 2,703,520 | - | - | - | - | - | 2,703,520 |
| Pledged assets | 1,851,183 | - | - | - | - | - | 1,851,183 |
| Loans | 113,589,892 | 26,047,672 | 22,920 | 4 | 20,178 | - | 139,680,666 |
| Investments | 27,103,127 | 27,880,992 | - | - | - | - | 54,984,119 |
| Investments in subsidiaries | 220,000 | - | - | - | - | - | 220,000 |
| Other assets | <u>27,935,599</u> | <u>2,582,343</u> | <u>10,622</u> | <u>(109)</u> | <u>107,776</u> | <u>-</u> | <u>30,636,231</u> |
| | <u>200,280,093</u> | <u>113,040,313</u> | <u>3,207,051</u> | <u>5,213,056</u> | <u>651,267</u> | <u>93,972</u> | <u>322,485,752</u> |
| LIABILITIES | | | | | | | |
| Deposits, due to financial institutions, parent and fellow subsidiaries | 133,506,891 | 110,251,710 | 3,034,715 | 5,076,859 | 408,975 | 412 | 252,279,562 |
| Other liabilities | <u>19,424,929</u> | <u>3,250,070</u> | <u>66,359</u> | <u>11,673</u> | <u>235,071</u> | <u>9,034</u> | <u>22,997,136</u> |
| | <u>152,931,820</u> | <u>113,501,780</u> | <u>3,101,074</u> | <u>5,088,532</u> | <u>644,046</u> | <u>9,446</u> | <u>275,276,698</u> |
| NET POSITION | <u>47,348,273</u> | <u>(461,467)</u> | <u>105,977</u> | <u>124,524</u> | <u>7,221</u> | <u>84,526</u> | <u>47,209,054</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

The tables below summarise exposure to relevant currencies (continued):

| | The Bank | | | | | | |
|---|--------------------|---------------------|--------------------|------------------|----------------|-----------------|--------------------|
| | 2015 | | | | | | |
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | OTHER | TOTAL |
| ASSETS | | | | | | | |
| Cash resources | 20,706,788 | 33,086,851 | 2,812,063 | 5,744,729 | 370,124 | 49,325 | 62,769,880 |
| Financial assets at fair value through profit or loss | 70,188 | - | - | - | - | - | 70,188 |
| Government securities purchased under resale agreements | 2,037,544 | - | - | - | - | - | 2,037,544 |
| Pledged assets | 8,017,272 | - | - | - | - | - | 8,017,272 |
| Loans | 102,655,714 | 27,736,570 | 148,832 | 2 | 37,291 | - | 130,578,409 |
| Investments | 21,213,913 | 25,675,920 | - | - | - | - | 46,889,833 |
| Investments in subsidiaries | 242,093 | - | - | - | - | - | 242,093 |
| Other assets | <u>27,477,277</u> | <u>2,818,806</u> | <u>(629)</u> | <u>(52,062)</u> | <u>147,099</u> | <u>(38,225)</u> | <u>30,352,266</u> |
| | <u>182,420,789</u> | <u>89,318,147</u> | <u>2,960,266</u> | <u>5,692,669</u> | <u>554,514</u> | <u>11,100</u> | <u>280,957,485</u> |
| LIABILITIES | | | | | | | |
| Deposits, due to financial institutions, parent and fellow subsidiaries | 118,492,793 | 86,602,399 | 5,518,809 | 3,055,354 | 459,407 | 406 | 214,129,168 |
| Other liabilities | <u>22,072,786</u> | <u>4,864,480</u> | <u>64,684</u> | <u>25,491</u> | <u>95,347</u> | <u>11,846</u> | <u>27,134,634</u> |
| | <u>140,565,579</u> | <u>91,466,879</u> | <u>5,583,493</u> | <u>3,080,845</u> | <u>554,754</u> | <u>12,252</u> | <u>241,263,802</u> |
| NET POSITION | <u>41,855,210</u> | <u>(2,148,732)</u> | <u>(2,623,227)</u> | <u>2,611,824</u> | <u>(240)</u> | <u>(1,152)</u> | <u>39,693,683</u> |

The following significant exchange rates were applied during the year:

| | Average rate for the period | | Reporting date spot rate | |
|-----|-----------------------------|-----------------|--------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| USD | 124.6602 | 116.1969 | 128.7033 | 119.5755 |
| CAD | 93.2833 | 92.0075 | 95.1561 | 89.8687 |
| GBP | 170.1607 | 177.8415 | 155.7139 | 182.2461 |
| EUR | <u>136.9285</u> | <u>131.2166</u> | <u>141.0683</u> | <u>131.1022</u> |

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the currencies indicated, at October 31, would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis as 2015. The strengthening of the JMD against the same currencies at October 31 would have had an equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

| | 2016 | 2015 |
|-----|-------------------|-------------------|
| | Increase/decrease | Increase/decrease |
| USD | by 3.75% | by 3.00% |
| CAD | by 15.00% | by 5.50% |
| GBP | by 7.00% | by 8.00% |
| EUR | by 8.25% | by 8.25% |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(c) Market risk (continued)****Sensitivity to foreign exchange rate movements (continued)**

| | The Group | | The Bank | |
|--|----------------|---------------|----------------|---------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Effect on profit and stockholders' equity | <u>117,978</u> | <u>95,220</u> | <u>117,680</u> | <u>95,157</u> |

(d) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows. The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns and guarantees. The Group 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 Group maintains large holdings of unencumbered liquid assets to support its operations. These assets generally can also be sold or pledged to meet the Bank's obligations.

The Group's liquidity management process includes:

- (i) Monitoring future cash flows and liquidity on a daily basis;
- (ii) Maintaining a portfolio of highly marketable assets that can be liquidated quickly as protection against any unforeseen interruption of cash flow;
- (iii) Monitoring the liquidity ratios of the Group against internal and regulatory requirements;
- (iv) Managing the concentration and profile of debt maturities, as well as undrawn lending commitments.
- (v) Liquidity stress testing and contingency planning.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group's business. It is unusual for companies 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 Group and its exposure to changes in interest rates and exchange rates. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances, government and corporate bonds, treasury bills, and loans.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect all third parties to draw funds under the agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(d) Liquidity risk (continued)**

Financial liabilities cash flows

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities, based on contractual repayment obligations. However, the Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay.

| | The Group 2016 | | | | | Total | Carrying amount |
|---|--------------------|-------------------|------------------|------------------|----------------------------|--------------------|--------------------|
| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | | |
| Financial liabilities | | | | | | | |
| Deposits, due to financial institutions, parent company and fellow subsidiaries | 258,825,864 | 9,122,606 | 6,786,490 | 4,217,733 | - | 278,952,693 | 268,451,139 |
| Policyholders' liabilities | 39,032,163 | 11,587,607 | - | - | - | 50,619,770 | 44,764,585 |
| Other liabilities | <u>5,491,025</u> | <u>939,206</u> | <u>75,595</u> | <u>1,520,457</u> | <u>-</u> | <u>8,026,283</u> | <u>8,007,972</u> |
| Total liabilities | <u>303,349,052</u> | <u>21,649,419</u> | <u>6,862,085</u> | <u>5,738,190</u> | <u>-</u> | <u>337,598,746</u> | <u>321,223,696</u> |
| | 2015 | | | | | | |
| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total | Carrying amount |
| Financial liabilities | | | | | | | |
| Deposits, due to financial institutions, parent company and fellow subsidiaries | 209,063,978 | 6,913,819 | 7,085,095 | 4,828,698 | - | 227,891,590 | 226,938,039 |
| Securities sold under repurchase agreements | 5,024,512 | - | - | - | - | 5,024,512 | 5,006,853 |
| Policyholders' liabilities | 36,779,314 | 11,833,286 | - | - | - | 48,612,600 | 43,112,279 |
| Other liabilities | <u>4,977,081</u> | <u>2,140,397</u> | <u>726,467</u> | <u>1,184,358</u> | <u>-</u> | <u>9,028,303</u> | <u>9,028,303</u> |
| Total liabilities | <u>255,844,885</u> | <u>20,887,502</u> | <u>7,811,562</u> | <u>6,013,056</u> | <u>-</u> | <u>290,557,005</u> | <u>284,085,474</u> |
| | The Bank 2016 | | | | | | |
| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total | Carrying amount |
| Financial liabilities | | | | | | | |
| Deposits, due to financial institutions, parent company and fellow subsidiaries | 248,333,320 | 6,198,602 | 4,236,630 | 107,016 | - | 258,875,568 | 252,279,562 |
| Securities sold under repurchase agreements | 915,187 | - | - | - | - | 915,187 | 913,049 |
| Other liabilities | <u>4,729,089</u> | <u>939,206</u> | <u>75,595</u> | <u>1,520,457</u> | <u>-</u> | <u>7,264,347</u> | <u>7,264,327</u> |
| Total liabilities | <u>253,977,596</u> | <u>7,137,808</u> | <u>4,312,225</u> | <u>1,627,473</u> | <u>-</u> | <u>267,055,102</u> | <u>260,456,938</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(d) Liquidity risk (continued)**

Financial liabilities cash flows (continued)

| | 2015 | | | | | Total | Carrying amount |
|---|--------------------|------------------|------------------|------------------|----------------------|--------------------|--------------------|
| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | | |
| Financial liabilities | | | | | | | |
| Deposits, due to financial institutions, parent company and fellow subsidiaries | 203,847,250 | 4,760,679 | 4,773,276 | 803,489 | - | 214,184,694 | 214,129,168 |
| Securities sold under repurchase agreements | 5,586,559 | - | - | - | - | 5,586,559 | 5,568,900 |
| Other liabilities | <u>4,403,856</u> | <u>2,140,397</u> | <u>726,466</u> | <u>1,184,358</u> | <u>-</u> | <u>8,455,077</u> | <u>8,455,077</u> |
| Total liabilities | <u>213,837,665</u> | <u>6,901,076</u> | <u>5,499,742</u> | <u>1,987,847</u> | <u>-</u> | <u>228,226,330</u> | <u>228,153,145</u> |

(e) Insurance risk

The Group issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Two key matters affecting insurance risk are discussed below:

(i) Long-term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The Group has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants and retention limits on any single life insured.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(e) Insurance risk (continued)****(i) Long-term insurance contracts (continued)****(1) Frequency and severity of claims**

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual and group life insured benefits. The benefit insured figures are shown gross and net of reinsurance.

Individual Life Benefits assured per life

| | The Group | | | |
|------------------------|---------------------------------|------------|---------------------------------|------------|
| | Total benefits assured | | | |
| | 2016 | | 2015 | |
| | Before and after reinsurance | % | Before and after reinsurance | % |
| 0 to 250,000 | 5,814,375 | 11 | 6,077,701 | 11 |
| 250,001 to 500,000 | 2,445,877 | 5 | 2,537,410 | 5 |
| 500,001 to 750,000 | 3,336,067 | 6 | 3,555,278 | 7 |
| 750,001 to 1,000,000 | 3,443,102 | 7 | 3,549,148 | 7 |
| 1,000,001 to 1,500,000 | 9,973,343 | 19 | 10,191,009 | 19 |
| 1,500,001 to 2,000,000 | 6,150,308 | 12 | 6,358,769 | 12 |
| Over 2,000,000 | <u>21,127,992</u> | <u>40</u> | <u>20,540,167</u> | <u>39</u> |
| Total | <u>52,291,064</u> | <u>100</u> | <u>52,809,482</u> | <u>100</u> |

Group Life Benefits assured per life

| | Total benefits assured | | | |
|------------------------|---------------------------------|------------|---------------------------------|------------|
| | 2016 | | 2015 | |
| | Before and after reinsurance | % | Before and after reinsurance | % |
| 0 to 250,000 | 11,584,736 | 14 | 10,946,669 | 14 |
| 250,001 to 500,000 | 4,855,451 | 6 | 5,678,235 | 7 |
| 500,001 to 750,000 | 5,539,289 | 7 | 6,685,841 | 9 |
| 750,001 to 1,000,000 | 4,541,009 | 5 | 5,554,896 | 7 |
| 1,000,001 to 1,500,000 | 15,877,647 | 20 | 18,096,804 | 23 |
| 1,500,001 to 2,000,000 | 11,889,056 | 15 | 11,921,091 | 16 |
| Over 2,000,000 | <u>26,351,358</u> | <u>33</u> | <u>18,345,229</u> | <u>24</u> |
| Total | <u>80,638,546</u> | <u>100</u> | <u>77,228,765</u> | <u>100</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(e) Insurance risk (continued)****(i) Long-term insurance contracts (continued)****(1) Frequency and severity of claims (continued)**

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The Group has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

(2) Sources of uncertainty in the estimation of future benefit payments and premiums

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's experience.

(3) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

New estimates are made each subsequent year based on updated Group experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

(ii) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour its obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers. The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings, as determined by a reputable rating agency.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(e) Insurance risk (continued)****(ii) Reinsurance risk (continued)**

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Group are summarised below:

| Type of insurance contract | Retention |
|-----------------------------------|--|
| Individual, group & creditor life | maximum retention of \$420 for a single catastrophe event; treaty limits apply |
| Group creditor life contracts | maximum retention of \$15,000 per insured |

(iii) Sensitivity analysis of actuarial liabilities**(1) Sensitivity arising from the valuation of life insurance contracts**

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM)
- the investments allocated to back the liabilities
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the Appointed Actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under PPM reflect the impact of different yields.

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group, are in descending order of impact:

- mortality and morbidity
- operating expenses and taxes
- lapse

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Financial risk management (continued)****(e) Insurance risk (continued)****(iii) Sensitivity analysis of actuarial liabilities (continued)****(1) Sensitivity arising from the valuation of life insurance contracts (continued)**

The following table presents the sensitivity of the liabilities to a change in assumptions:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| Interest rates decrease by 1% | 9,233 | 51,120 |
| Interest rates increase by 1% | 31,198 | (6,663) |
| Mortality increases by 10% | 429,266 | 406,077 |
| Mortality decreases by 10% | (445,156) | (419,448) |
| Expenses increase by 10% | 350,177 | 316,667 |
| Expenses decrease by 10% | (346,269) | (313,369) |
| Lapses and withdrawals increase by 10% | 261,517 | 294,501 |
| Lapses and withdrawals decrease by 10% | <u>(286,996)</u> | <u>(322,082)</u> |

45. Fair value of financial instruments**Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The best evidence of fair value for a financial instrument is the quoted price in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where possible, the Group measures the fair value of an instrument based on quoted prices or observable inputs obtained from active markets.

For financial instruments for which there is no quoted price in an active market, the Group uses internal models that maximize the use of observable inputs to estimate fair value. The chosen valuation technique incorporates all the factors that market participants would take into account.

When using models where observable parameters do not exist, the Group uses greater management judgement for valuation purposes.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2016

(Expressed in thousands of Jamaican dollars unless otherwise stated)

45. Fair value of financial instruments (continued)

Fair value hierarchy

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

- Level 1 - fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - fair value measurement includes on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - fair value measurement includes inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group recognises transfers between levels of the fair value hierarchy at the date the event or change in circumstances that caused the transfer occurred. There were no such transfers during the year.

Basis of valuation

The specific inputs and valuation techniques used in determining the fair value of financial instruments are noted below:

- (i) financial instruments classified as available-for-sale are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques which include utilising recent transaction prices or broker quotes.
- (ii) financial instruments classified as fair value through profit or loss: fair value is estimated by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows. Fair value is equal to the carrying amount for these investments.
- (iii) the fair value of liquid assets and other assets maturing within one year is considered to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;
- (iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the reporting date; the fair value of fixed-term interest bearing deposits is based on discounted cash flows using interest rates for new deposits;
- (v) the fair value of variable rate financial instruments is considered to approximate their carrying amounts as they are frequently repriced to current market rates; and
- (vi) the fair value of fixed rate loans is estimated by comparing actual interest rates on the loans to current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. 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 allowance for credit losses from both book and fair values.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Fair value of financial instruments (continued)****Basis of valuation (continued)**

- (vii) The fair values of quoted equity investments are based on quoted market bid prices. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

The following table sets out the carrying amounts and the fair values of financial assets and liabilities of the Group using the valuation methods and assumptions described above, and including their levels in the fair value hierarchy. The fair values disclosed do not include non-financial assets, such as property and equipment, goodwill and other intangible assets.

The table also excludes financial instruments not measured at fair value but for which carrying amounts are reasonable approximations of fair value.

| | The Group | | | | | | | |
|--|-------------------|--------------------|-----------------------------------|--------------------|------------------|-------------------|-------------------|--------------------|
| | 2016 | | | | | | | |
| | Carrying amount | | | | Fair value | | | |
| | Amortised cost | Available-for-sale | Fair value through profit or loss | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value | | | | | | | | |
| Unquoted shares | - | 5,105 | - | 5,105 | - | - | 5,105 | 5,105 |
| Government of Jamaica securities | - | 65,391,543 | 200,058 | 65,591,601 | - | 65,591,601 | - | 65,591,601 |
| Bank of Jamaica securities | - | 7,096,489 | - | 7,096,489 | - | 7,096,489 | - | 7,096,489 |
| Treasury Bills | - | 2,129,514 | - | 2,129,514 | 2,129,514 | - | - | 2,129,514 |
| Corporate bond | - | 25,437,550 | - | 25,437,550 | - | 25,437,550 | - | 25,437,550 |
| Unitised funds | - | 707,603 | - | 707,603 | - | 707,603 | - | 707,603 |
| | - | <u>100,767,804</u> | <u>200,058</u> | <u>100,967,862</u> | <u>2,129,514</u> | <u>98,833,243</u> | <u>5,105</u> | <u>100,967,862</u> |
| Pledged assets measured at fair value | | | | | | | | |
| Government of Jamaica securities | - | 890,898 | - | 890,898 | - | 890,898 | - | 890,898 |
| Financial assets not measured at fair value | | | | | | | | |
| Loans and receivables | 61,816,450 | - | - | 61,816,450 | - | - | 63,726,122 | 63,726,122 |
| Held to maturity Government of Jamaica Securities | <u>5,404,231</u> | - | - | <u>5,404,231</u> | - | <u>5,428,055</u> | - | <u>5,428,055</u> |
| | <u>67,220,681</u> | - | - | <u>67,220,681</u> | - | <u>5,428,055</u> | <u>63,726,122</u> | <u>69,156,177</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Fair value of financial instruments (continued)**

Accounting classifications and fair values (continued)

| | The Group | | | | | | | |
|--|--------------------|-----------------------------------|----------------|-------------------|------------|-------------------|-------------------|-------------------|
| | 2015 | | | | | | | |
| | Carrying amount | | | | Fair value | | | |
| Amortised cost | Available-for-sale | Fair value through profit or loss | Total | Level 1 | Level 2 | Level 3 | Total | |
| Financial assets measured at fair value | | | | | | | | |
| Unquoted shares | - | 5,240 | - | 5,240 | - | - | 5,240 | 5,240 |
| Government of Jamaica securities | - | 58,438,783 | 384,895 | 58,823,678 | - | 58,823,678 | - | 58,823,678 |
| Bank of Jamaica securities | - | 209,948 | - | 209,948 | - | 209,948 | - | 209,948 |
| Corporate bond | - | 24,893,157 | - | 24,893,157 | - | 24,893,157 | - | 24,893,157 |
| Credit linked notes | - | 1,806,200 | - | 1,806,200 | - | 1,806,200 | - | 1,806,200 |
| Unitised funds | - | 574,894 | - | 574,894 | - | 574,894 | - | 574,894 |
| | - | <u>85,928,222</u> | <u>384,895</u> | <u>86,313,117</u> | - | <u>86,307,877</u> | <u>5,240</u> | <u>86,313,117</u> |
| Pledged assets measured at fair value | | | | | | | | |
| Government of Jamaica securities | - | 7,422,726 | - | 7,422,726 | - | 7,422,726 | - | 7,422,726 |
| Financial assets not measured at fair value | | | | | | | | |
| Loans and receivables | <u>48,367,947</u> | - | - | <u>48,367,947</u> | - | - | <u>50,535,132</u> | <u>50,535,132</u> |
| Held to maturity | | | | | | | | |
| Government of Jamaica Securities | <u>9,346,466</u> | - | - | <u>9,346,466</u> | - | <u>9,346,877</u> | - | <u>9,346,877</u> |
| | <u>57,714,413</u> | - | - | <u>57,714,413</u> | - | <u>9,346,877</u> | <u>50,535,132</u> | <u>59,882,009</u> |
| The Bank | | | | | | | | |
| 2016 | | | | | | | | |
| Carrying amount | | | | Fair value | | | | |
| Amortised cost | Available-for-sale | Fair value through profit or loss | Total | Level 1 | Level 2 | Level 3 | Total | |
| Financial assets measured at fair value: | | | | | | | | |
| Government of Jamaica Securities | - | 24,494,869 | 36,482 | 24,531,351 | - | 24,531,351 | - | 24,531,351 |
| Bank of Jamaica securities | - | 5,046,595 | - | 5,046,595 | - | 5,046,595 | - | 5,046,595 |
| Unquoted shares | - | 5,105 | - | 5,105 | - | - | 5,105 | 5,105 |
| Corporate bonds | - | 25,437,550 | - | 25,437,550 | - | 25,437,550 | - | 25,437,550 |
| | - | <u>54,984,119</u> | <u>36,482</u> | <u>55,020,601</u> | - | <u>55,015,496</u> | <u>5,105</u> | <u>55,020,601</u> |
| Pledged assets measured at fair value: | | | | | | | | |
| Government of Jamaica securities | - | 1,851,183 | - | 1,851,183 | - | 1,851,183 | - | 1,851,183 |
| Financial assets not measured at fair value | | | | | | | | |
| Loans and receivables | <u>52,928,394</u> | - | - | <u>52,928,394</u> | - | - | <u>55,054,221</u> | <u>55,054,221</u> |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Fair value of financial instruments (continued)**

Accounting classifications and fair values (continued)

| | | The Bank | | | | | | |
|--|-------------------|------------------------|--|-------------------|---------|-------------------|-------------------|-------------------|
| | | 2015 | | | | | | |
| | | Carrying amount | | | | | | |
| | Amortised cost | Available- for-sale | Fair value through profit or loss | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value: | | | | | | | | |
| Government of Jamaica | | | | | | | | |
| Securities | - | 20,934,432 | 70,188 | 21,004,620 | - | 21,004,620 | - | 21,004,620 |
| Unquoted shares | - | 5,105 | - | 5,105 | - | - | 5,105 | 5,105 |
| Corporate bonds | - | 24,144,096 | - | 24,144,096 | - | 24,144,096 | - | 24,144,096 |
| Credit linked notes | - | <u>1,806,200</u> | - | <u>1,806,200</u> | - | <u>1,806,200</u> | - | <u>1,806,200</u> |
| | - | <u>46,889,833</u> | <u>70,188</u> | <u>46,960,021</u> | - | <u>46,954,916</u> | <u>5,105</u> | <u>46,960,021</u> |
| Pledged assets measured at fair value: | | | | | | | | |
| Government of Jamaica securities | - | <u>8,017,272</u> | - | <u>8,017,272</u> | - | <u>8,017,272</u> | - | <u>8,017,272</u> |
| Financial assets not measured at fair value | | | | | | | | |
| Loans and receivables | <u>48,367,947</u> | - | - | <u>48,367,947</u> | - | - | <u>50,535,132</u> | <u>50,535,132</u> |

All Government of Jamaica securities and international bonds are valued using the bid price from Bloomberg; this price is then applied to estimate the fair value.

46. Capital risk management

Capital risk is the risk that the Group 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 policyholders, and they monitor closely to ensure that the Group is satisfactorily managing its fiduciary responsibility to depositors and policyholders. The regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

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

- To comply with the capital requirements established by the regulatory authorities responsible for banking, insurance and other financial intermediaries;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors, policyholders and stockholders;
- To provide adequate returns to stockholders by pricing investment, insurance and other contracts commensurate with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations. Capital is managed in accordance with the Board approved Capital Management Policy.

Individual banking, investment and insurance subsidiaries are directly regulated by their designated regulator, who sets and monitors each entity's capital adequacy requirements. Required capital adequacy information is filed with the regulators at least quarterly.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***46. Capital risk management (continued)****Banking and Mortgage lending**

Capital adequacy is reviewed by Executive Management, the Audit Committee and the Board of Directors. Based on the guidelines developed by Bank of Jamaica, each regulated entity is required to:

- Hold the minimum level of regulatory capital; and
- Maintain a minimum ratio of total regulatory capital to risk weighted assets.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
2. Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on property, plant and equipment.

Investment in subsidiaries is deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or 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, the ratios for each component and the applicable regulator. During the year, the individual entities complied with all of the externally imposed capital requirements.

| | Regulated by BOJ | | | |
|---|-------------------------------------|-------------------|--------------------|--------------------|
| | The Scotia Jamaica Building Society | | The Bank | |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Tier 1 Capital | 4,650,000 | 4,450,000 | 27,391,052 | 23,332,290 |
| Tier 2 Capital | <u>114,051</u> | <u>94,474</u> | <u>1,380,138</u> | <u>1,365,703</u> |
| Total regulatory capital | 4,764,051 | 4,544,474 | 28,771,190 | 24,697,993 |
| Less prescribed deductions | <u>-</u> | <u>-</u> | <u>(220,000)</u> | <u>(242,093)</u> |
| | <u>4,764,051</u> | <u>4,544,474</u> | <u>28,551,190</u> | <u>24,455,900</u> |
| Risk weighted assets | | | | |
| On-balance sheet | 15,228,453 | 12,946,140 | 199,249,477 | 183,676,509 |
| Off balance sheet | - | - | 21,150,865 | 26,370,560 |
| Foreign exchange exposure | <u>-</u> | <u>-</u> | <u>1,265,953</u> | <u>2,525,642</u> |
| Total risk weighted assets | <u>15,228,453</u> | <u>12,946,140</u> | <u>221,666,295</u> | <u>212,572,711</u> |
| Actual regulatory capital to risk weighted assets | 31.3% | 35.1% | 12.9% | 11.5% |
| Regulatory requirement | 10.0% | 10.0% | 10.0% | 10.0% |

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***46. Capital risk management (continued)****Life Insurance**

Capital adequacy is calculated by the Appointed Actuary and reviewed by Executive Management, the Audit Committee and the Board of Directors. The Group seeks to maintain internal capital adequacy levels higher than the regulatory requirement. To assist in evaluating the current financial strength, the risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and required by the Insurance Regulations 2001. Under Jamaica regulations, the minimum standard recommended for companies is a MCCSR of 150%. The MCCSR for the insurance subsidiary as of October 31, 2016 and 2015 are set out below:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| Regulatory capital held | <u>9,121,902</u> | <u>9,077,669</u> |
| Minimum regulatory capital | <u>1,455,883</u> | <u>1,403,924</u> |
| Minimum Continuing Capital and Surplus Requirement Ratio | <u>627%</u> | <u>647%</u> |

47. Commitments

| | <u>The Group</u> | | <u>The Bank</u> | |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| (a) Capital expenditure: | | | | |
| Authorised and contracted | <u>2,000</u> | <u>59,739</u> | <u>2,000</u> | <u>59,739</u> |
| (b) Commitments to extend credit: | | | | |
| Originated term to maturity of more than one year | <u>22,043,607</u> | <u>21,283,775</u> | <u>21,241,971</u> | <u>20,670,850</u> |

(c) Operating lease commitments:

Future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

| | <u>The Group and the Bank</u> | |
|---|-------------------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Not later than one year | 171,826 | 191,856 |
| Later than one year and not later than five years | 539,699 | 559,252 |
| Later than five years | <u>1,891,907</u> | <u>2,005,655</u> |
| | <u>2,603,432</u> | <u>2,756,763</u> |

48. Litigation and contingent liabilities

The Group is subject to various claims, disputes and legal proceedings in the normal course of business. Provision is made in the financial statements when, in the opinion of management and its legal counsel, it is more likely than not that the Group will be found liable and the amount can be reasonably estimated.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***48. Litigation and contingent liabilities (continued)**

In respect of claims asserted against subsidiaries of the Group for which no provision has been made, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the subsidiary and the Group which is immaterial to both its financial position and financial performance.

49. Dividends**(a) Paid**

The Bank paid dividends of \$0.39 per share amounting to \$2,320,436 on July 21, 2016 and October 25, 2016.

(b) Proposed

At the Board of Directors meeting on December 7, 2016, a dividend in respect of 2016 of \$0.43 per share amounting to \$1,258,710 was proposed. (2015: nil).

50. Employee Share Ownership Plan

The Bank has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of the Group to steadily increase their ownership of the parent company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any Group entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. The employer and employees make contributions to the Trust fund and these contributions are used to fund the acquisition of shares for the employees. Employees' contributions are determined by reference to the length of their employment and their annual basic remuneration. The employer contributions are as prescribed by the formula set out in the rules of the Plan.

The contributions are used by the trustees to acquire the parent company's shares, at market value. The shares purchased with the employees' contributions vest immediately, although they are subject to the restriction that they may not be sold within two years of acquisition. Out of shares purchased with the Bank's contributions, allocations are made to participating employees, but are held by the Trust for a two-year period, at the end of which they vest with the employees; if an employee leaves the Group within the two-year period, the right to these shares is forfeited; such shares then become available to be granted by the employer to other participants in accordance with the formula referred to previously.

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to \$28,894 (2015: \$28,562).

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2016***(Expressed in thousands of Jamaican dollars unless otherwise stated)***50. Employee Share Ownership Plan (continued)**

At the financial year end, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

| | <u>The Group</u> | |
|----------------------|------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Number of shares | <u>1,751,891</u> | <u>1,729,091</u> |
| Fair value of shares | <u>54,423</u> | <u>46,452</u> |

51. Fiduciary activities

The Group provides administration and investment management services to an approved retirement scheme. This involves the Group making allocation and purchase and sale decisions in relation to fixed income securities. Those assets that are held in a fiduciary capacity are not included in these financial statements. As at the reporting date, the Group had financial assets under administration of approximately \$6,572,884 (2015: \$5,450,503).