BUILDING THE ECONOMY OF EVERYONE

2017 ANNUAL REPORT
SCOTIA GROUP JAMAICA LIMITED

Scotiabank®

BUILDING THE ECONOMY OF EVERYONE:

We believe every customer – corporate, commercial, wealth and retail – has the right to become better off. Through advice, financial services and community support, we are committed to building the personal economy of every one of our customers. We know that when our customers and the communities they live and work in prosper, we all prosper.

Corporate Data

SECRETARY

Richard Fraser
Vice President, Senior Legal Counsel & Corporate Secretary

REGISTERED OFFICE

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Telephone:
(876) 922.1000

Fax: (876) 922.6548

Website: www.scotiabank.com/jm

Telex: 2297

SWIFT Bic Code: NOSCJMKN

AUDITORS

KPMG
6 Duke Street
Kingston
Jamaica

Telephone:
(876) 922.6640
Fax:
(876) 922.4500
(876) 922.7198
Website:
firmmail@kpmg.com.jm

REGISTRAR

PwC Corporate Services (Jamaica) Limited
Scotiabank Centre
Corner Duke & Port Royal Streets
Kingston

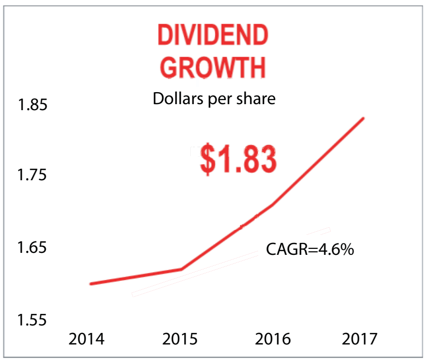
Telephone:

Office: (876) 922.6230

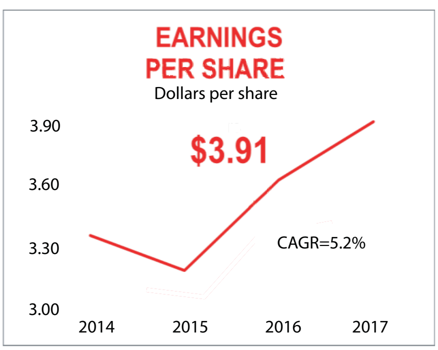
Fax: (876) 967.9467

Website: http://www.pwc.com/jm

WHY INVEST IN SCOTIABANK?



- Diversified business model providing sustainable earnings
- Earnings momentum in retail, commercial and insurance
- Consistent growth in dividends
- Ability to leverage global brand with international footprint
- Focused on digitization to strengthen customer experience and improve efficiency
- Strong risk management culture
- Strong balance sheet with prudent capital and liquidity positions



RETURN ON AVERAGE EQUITY **12.6%**

POSITIVE OPERATING LEVERAGE

STRONG CAPITAL POSITION

CONTENTS

TEN YEAR STATISTICAL REVIEW

SCOTIA GROUP JAMAICA LIMITED

	2017	2016	2015
BALANCE SHEET DATA - $000			
TOTAL ASSETS	490,882,681	477,391,654	432,931,945
PERFORMING LOANS	161,979,917	162,446,895	149,997,313
NON-PERFORMING LOANS	4,513,674	4,379,885	4,502,060
INVESTMENTS AND OTHER EARNING ASSETS	241,897,129	249,802,716	229,603,523
DEPOSITS BY THE PUBLIC	260,559,467	248,416,381	209,461,602
SECURITIES SOLD UNDER REPURCHASE AGREEMENT	20,666,065	31,634,237	39,832,452
STOCKHOLDERS' EQUITY	102,431,566	91,855,773	85,257,232
PROFITS AND DIVIDENDS - $000			
PROFIT BEFORE TAX	18,201,458	16,640,943	14,244,136
NET PROFIT AFTER TAX ATTRIBUTABLE TO STOCKHOLDERS	12,174,742	11,300,599	9,921,429
DIVIDENDS PAID AND PROPOSED	5,694,214	5,320,791	5,040,748
NUMBER OF STOCK UNITS AT YEAR END	3,111,573	3,111,573	3,111,573
FINANCIAL RATIOS			
EARNINGS PER STOCK UNIT - $	3.91	3.63	3.19
PRICE EARNINGS RATIO	13.10	8.67	8.43
DIVIDENDS PER STOCK UNIT - $	1.83	1.71	1.62
DIVIDEND YIELD	4.28%	5.53%	7.01%
DIVIDEND PAYOUT RATIO	46.77%	47.08%	50.81%
RETURN ON AVERAGE EQUITY	12.58%	12.65%	12.32%
RETURN ON ASSETS AT YEAR END	2.48%	2.37%	2.29%
OTHER DATA			
TIER 1 CAPITAL (Bank only) (1) $000	33,900,498	27,391,052	23,332,290
RISK BASED CAPITAL ADEQUACY RATIO (Bank only) (1)	15.28%	12.88%	11.50%
STOCK PRICE AT THE YEAR END	51.25	31.48	26.87
PRICE CHANGE FROM LAST YEAR	62.83%	17.16%	39.74%
CHANGE IN JSE INDEX FROM LAST YEAR	75.64%	27.02%	83.05%
NUMBER OF STAFF	1,876	2,021	2,144
EXCHANGE RATE US$1.00 = J$	126.6851	128.7033	119.5755
INFLATION RATE YEAR OVER YEAR	4.68%	1.78%	2.03%

(1) Risk Based Capital Adequacy Ratio and Tier 1 Capital are calculated per Bank of Jamaica Regulations.

* Effective November 1, 2014 the Group adopted IFRIC 21, Levies. These amounts were restated due to the change in accounting policy.

\+ Effective November 1, 2013 the Group adopted IAS 19 (Revised) Employee Benefits. The change in accounting policy was applied retroactively and these amounts were restated.

2014 (restated)	2013 (restated)	2012 (restated)	2011	2010	2009	2008
407,030,262	389,260,505	358,141,805 +	332,041,259	325,823,953	315,555,872	280,284,251
140,829,220	130,332,373	117,973,642	94,719,222	91,599,243	88,591,281	86,726,366
4,902,782	4,491,383	4,551,026	5,257,217	4,215,254	3,587,030	2,970,714
216,747,750	207,670,829	198,905,245	200,539,453	200,362,102	194,182,553	167,116,031
190,726,667	183,369,415	160,994,182	144,670,083	145,664,085	141,877,096	130,673,257
47,840,197	42,588,792	45,384,758	44,700,992	45,025,585	46,120,207	40,206,572
76,484,253 *	69,775,527 *	63,974,046 +	60,310,619	53,155,381	45,724,655	37,940,932
14,357,886 *	14,631,285 *	14,369,041 +	14,244,620	14,417,094	15,379,659	13,119,095
10,457,709 *	11,980,842 *	9,932,812 +	10,193,390	10,405,649	11,152,199	9,390,739
4,978,516	4,978,516	4,698,475	4,605,128	4,605,128	4,325,086	4,045,044
3,111,573	3,111,573	3,111,573	3,111,573	3,111,573	3,111,573	3,111,573
3.36 *	3.85 *	3.19 +	3.28	3.34	3.58	3.02
5.72 *	5.19 *	6.65 +	7.59	6.09	5.13	6.68
1.60	1.60	1.51	1.48	1.48	1.39	1.30
8.08%	7.64%	6.69%	6.48%	7.08%	8.13%	5.58%
47.61% *	41.55% *	47.30% +	45.18%	44.26%	38.78%	43.07%
14.23% *	15.64% *	15.98% +	17.59%	20.78%	26.35%	25.28%
2.57% *	3.08% *	2.77% +	3.07%	3.19%	3.53%	3.35%
19,401,181	17,623,522	17,122,852	16,526,173	15,959,189	14,932,460	14,159,189
12.08%	11.23%	11.75% +	14.95%	15.40%	17.84%	17.86%
19.23	19.97	21.23	24.90	20.35	18.38	20.22
-3.73%	-5.91%	-14.76%	22.36%	10.72%	-9.08%	-4.85%
-12.36%	-8.89%	-5.72%	14.30%	3.46%	-14.06%	-5.85%
2,311	2,326	2,315	2,337	2,283	2,273	2,235
112.4939	104.6866	90.8050	86.2778	85.3825	89.1037	76.1253
8.09%	9.40%	6.17%	7.26%	10.37%	7.18%	25.34%

NOTICE OF ANNUAL GENERAL MEETING

SCOTIA GROUP JAMAICA LIMITED

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **SCOTIA GROUP JAMAICA LIMITED** (the "Company") will be held on **Thursday, March 8, 2018 at 10:00 a.m**. at the The Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, Jamaica, to consider, and if thought fit, pass the following resolutions:-

1. **Resolution No. 1 – Audited Accounts**

"That the Directors' Report, the Auditor's Report and the Statements of Account of the Company for the year ended October 31, 2017 previously circulated be and are hereby received."

2. **Resolution No. 2 – Election of Directors**

That the following persons shall be elected a Director of the Company for the term from the date of his or her election until the close of the next Annual General Meeting of the Company following election, subject always to earlier termination under the By-laws of the Company:-

a) **Barbara Alexander**
b) **Eric Crawford**
c) **Jeffrey Hall**
d) **A. Mark Hart**
e) **Brendan King**
f) **David Noel**
g) **Evelyn Smith**

3. **Resolution No. 3 – Appointment of Auditors**

"That KPMG, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company."

BY ORDER OF THE BOARD

Richard Fraser
Company Secretary
December 7, 2017

REGISTERED OFFICE
Scotiabank Centre
Duke & Port Royal Streets
Kingston

A Member entitled to attend and vote at this meeting may appoint a Proxy to attend and vote in his/her stead. A Proxy need not also be a Member of the Company. Enclosed is a Proxy Form for your convenience, which must be lodged at the Company's Registered Office at least forty-eight hours before the time appointed for holding a meeting. The Proxy Form shall bear the stamp duty of $100.00 before being signed. The stamp duty may be paid by adhesive stamp(s) to be cancelled by the person executing the Proxy.

DIRECTORS' REPORT

SCOTIA GROUP JAMAICA LIMITED

The Directors submit herewith the Statement of Consolidated Revenue, Expenses, Unappropriated Profits, Assets and Liabilities of the Group for the year ended October 31, 2017.

The Consolidated Statement of Revenue and Expenses reports pre-tax profit for the year of $18.2 billion from which there has been provided $5.8 billion for corporate income tax, leaving a balance of $12.4 billion.

The appropriation of earnings detailed in the financial statements includes:

A final dividend of 48 cents per stock unit payable to stockholders on record as at December 27, 2017 payable on January 18, 2018. This brings the total distribution for the year to $1.83 per stock unit compared with $1.71 per stock unit for the previous year.

On October 31, 2017 Mrs. Jacqueline Sharp demitted office and also resigned from the Board of Directors of Scotia Group Jamaica Limited. Mr. David Noel was appointed President & Chief Executive Officer of Scotia Group Jamaica Limited with effect from November 1, 2017. He was appointed a Director of the Board effective September 5, 2017.

The following Directors retired from the Board effective March 9, 2017: Mr. Anthony Chang, CD , Mr. Charles Johnston, CD and Mr. Joseph Matalon,CD In addition, Mr. Andrew Mahfood resigned from the Board effective December 7, 2017 to focus on other personnel and professional pursuits. The Board expresses its sincere appreciation to the above noted Directors for their invaluable contribution to the Company and wishes them well in their future endeavours.

Director Eric Crawford was appointed to the Board effective June 8, 2017.

The Auditors, KPMG, have signified their willingness to continue in office.

Your Directors wish to thank the Management and Staff of the Company for their performance during the year under review.

On behalf of the Board

Jeffrey M. Hall
Chairman, Kingston, Jamaica
December 7, 2017

Jeffrey M. Hall
Chairman

CHAIRMAN'S MESSAGE
to Shareholders

Dear fellow Shareholders,

The 2017 financial year was one of success for the Scotia Group, as we continued to deliver solid results while meeting the financial needs of our customers. At the helm of our success is the clear and proven strategy of delivering an outstanding client experience through strong leadership and sound risk management.

Being more customer focused remains a strategic priority for your Company. During the year, we introduced an integrated Customer Relationship Management Tool and Complaints Management System that allows us to be more responsive to our customers' needs. Moreover, we continue to enhance our digital channels to provide our customers with greater choice and convenience. Initiatives such as the rollout of Wi-Fi services to all our branches, the setup of online mobile phone top-up and the access to electronic statements with cheque images online, have transformed the way we do business with our customers.

Building on Our Momentum

The Group is building for the future as it continues its evolutionary process. On October 31, 2017, Jacqueline Sharp handed over the leadership baton to David Noel, who previously served as Deputy CEO. We sincerely thank Jackie for her inspired leadership and solid track record of performance over a distinguished career with Scotiabank. On behalf of the Board of Directors and all Scotiabankers, we wish Jackie the very best in her future endeavors. We also take this opportunity to congratulate David on his new appointment as President & CEO of the Scotia Group. We are confident that David, with his broad expertise and proven leadership capabilities, will continue to build on our legacy of performance with the unwavering support and dedication of the team.

Our Governance

The Board remains committed to the highest levels of oversight by adopting best practices in corporate governance, improving transparency and reviewing implementation of the Group's strategy. We are focused on balancing and protecting the interests of our many stakeholders, including shareholders, customers, employees and communities over the long-term.

There were several changes to the Board during the period under review. Four of our Directors have left the Board; three of whom, Mr. Anthony Chang, Mr. Charles Johnston and Mr. Joseph Matalon, retired on March 09, 2017. Our fourth Director, Mrs. Jacqueline Sharp, resigned on October 31, 2017. We extend our sincere gratitude to these Directors for their guidance and invaluable contribution to our sustained growth and profitability over the years.

In light of the departures, two new Directors, Mr. Eric Crawford and Mr. David Noel, were appointed to the Board in June and September of 2017, respectively. They bring to the Group, extensive expertise in the key areas of commercial banking, risk management, accounting and taxation. Finally, Mr. Brendan King, an existing Director, was appointed Deputy Chairman of the Board in March 2017.

Corporate Social Responsibility

Scotiabank continues to play a significant role in improving the lives of individuals within the communities we serve. We take great pride in our contribution towards national development and as such, it is deeply inculcated in the way we live, work and do business.

Acknowledgement

On behalf of the Board, I would like to thank our valued customers for their loyal and dedicated support to the Scotia Group and to you, our shareholders, for the confidence and trust you continue to show in us. The Board remains exceedingly confident that Scotiabank has the right talent, strategy and operating structure to successfully drive the long-term value for our staff and shareholders.

Jeffrey M. Hall

Chairman

David Noel
President & CEO

PRESIDENT & CEO'S MESSAGE

to Shareholders

Dear Shareholders,

We are pleased to report another year of solid financial results for the Scotia Group in 2017. Our success was underpinned by broad revenue growth, prudent risk management, and improvements in operating efficiency to curtail expense growth.

Over the year, we continued to acquire new customers across all our business lines and built deeper relationships with existing customers. Our results reflect a disciplined approach to strategy execution and the benefits of a diversified business model. Growing our core businesses and delivering the right financial advice and solutions to our customers, while continuously exploring opportunities to structurally optimise our operations remained our main priority throughout the year.

Financial Snapshot

The Group recorded net income after tax (NIAT) of $12.41 billion, an increase of $817 million or 7% relative to the previous year. Earnings per share were $3.91, representing a growth of 7.7% and we continue to return shareholder value with increased dividends. In addition, our return on equity (ROE) was solid at 12.6%, and we maintained robust capital levels with all operating subsidiaries exceeding prudential requirements. The Balance Sheet increased to $491 billion from $477 billion in the previous year, an increase of $13.5 billion or 2.8%.

Positive Economic Backdrop

As 2017 comes to a close, the narrative around Jamaica's macroeconomic backdrop remains positive. Despite the existence of structural impediments such as the high crime rate, low labour productivity and vulnerability to natural disasters, the Bank is forecasting improved growth in 2018 and likewise, anticipate that business and consumer sentiment will remain supportive.

Business Lines

While the pace of change in the banking industry continued to accelerate, culminating in heightened competitive pressures, Scotiabank has been responding with a comprehensive set of measures as we seek to build an even better bank.

We explored new opportunities as we continued to build on the Scotiabank legacy of strength and stability, to create long-term value for our shareholders. Our diversified business model enabled us to record sustainable earnings, and our strong capital base and liquidity positions, enable us to take advantage of growth opportunities as they arise.

Our retail loan portfolio increased by $3.6 billion or 3.5% year over year. In particular, our residential mortgage portfolio grew by 9.0% due to a series of well executed initiatives and targeted sales efforts to acquire new customers and increase our share of the market.

The Small and Medium Enterprise (SME) lending portfolio increased by 4% compared to last year. The Group continues to support the growth of businesses in Jamaica, and is committed to supporting the efforts for the SME sector given its significance to the country's growth prospects and employment generation. As their financial partner, we provided technical advice, training and capacity building programmes for SMEs to assist them to expand their businesses.

Our Commercial lending portfolio (Excluding SMEs) declined by $4 billion due primarily to a reduction in our commercial foreign currency loans.

Our restructuring efforts at Scotia Insurance in 2015 to create a more efficient platform for growth continues to bear fruit. The growth of our ScotiaBRIDGE Fund by 30% to $8.19 billion illustrates Scotiabank's continued dominance in the Retirement Scheme Market and more importantly our customers' confidence in us to grow their retirement savings.

Scotia Investments Jamaica Limited's (SIJL) Asset Management segment continues to be a dominant player in the market with 28.7% of the overall collective investment schemes in Jamaica, inclusive of mutual funds and unit trusts. SIJL's total funds under management (on and off balance sheet) ended the year at $185 billion, up by $9 billion from the previous year. Through the efforts of SIJL's Capital Markets team and the team of specialists at the Corporate and Commercial Banking Centre (CCBC), we successfully executed in excess of $22 billion in capital market deals for our corporate and commercial clients. For 2018 we will continue to leverage our expertise in the execution of sophisticated and innovative deals for our clients.

In summary, Scotiabank's 2017 results reflect strong momentum in our business lines, each of which contributed to our overall financial success. We were able to leverage our size and culture of cost management to effectively contain expense growth which allowed us to achieve positive operating leverage of 4.61% as our revenues grew faster than expenses. Looking ahead to 2018, I am confident that our continuing focus on our customers and our efforts to strengthen the Bank will guide our future success.

Digital Thrust

We made good progress this past year in advancing our Digital Strategy as we continue to leverage technology to cater to the changing needs, preferences and behaviours of our customers in an increasingly digital business environment. Scotiabank's heightened investment in digital and mobile banking continues to be embraced by our customers, with the volumes of mobile and online transactions in 2017 (for the first time) surpassing the number of branch transactions.

We are confident that the extension of our digital capabilities to create a more seamless banking experience and convenient solutions for customers, combined with our focus on deepening existing relationships, will enhance our customer experience and provide a solid base for increasing shareholder returns.

Accomplishments

I take the opportunity to mention some of our key accomplishments over the past year, as follows:

- During the year we rolled out Wi-Fi services to all our branches, as well as began to offer mobile top up on our internet banking platform, both of which provide additional convenience to customers.
- We were able to successfully introduce "Right Time Payments", which updates customers' credit card available balance within 15 minutes.
- Continued heavy emphasis on digital and mobile banking resulted in Scotiabank being recognised by Global Finance Magazine as the World's Best Consumer Digital Bank in 2017 for the 6th consecutive year. This prestigious award covers not only our Jamaica operations, but also several operations in the Scotiabank network across South America, the Caribbean and in Canada. We are honoured by this acknowledgement, which signifies the robustness of our global banking digital strategy and affirms our thrust to create a more efficient operating platform that better meets the needs of our customers.
- We were successful in receiving overwhelming support from the minority shareholders of Scotia Investments in our bid for their shares, and with the Court's approval, we took the company private. This will enable greater efficiencies within the Group.

The Way Forward

The banking industry continues to face a multiplicity of shifting regulatory, competitive and economic factors. While the confluence of these factors create an operating environment shrouded with uncertainties, the Board, management team and I, strongly believe that we have embarked on the right path to deliver long-term shareholder value. This path will see some changes as the Bank embarks on a new era. I have every confidence that with the support of our very dedicated team, we will continue to grow the company into the future as we hold steadfast to our core values: *Passion, Accountability, Integrity and Respect.*

I would also like to take this opportunity to recognize the continued support and guidance of the Board of Directors and each and every one of our Scotiabankers for their passion and dedication, all of whom have contributed to the success of the organization. Finally, I would like to thank you, our valued shareholders, for your unwavering confidence and trust in this great institution.

President & CEO

CORPORATE GOVERNANCE

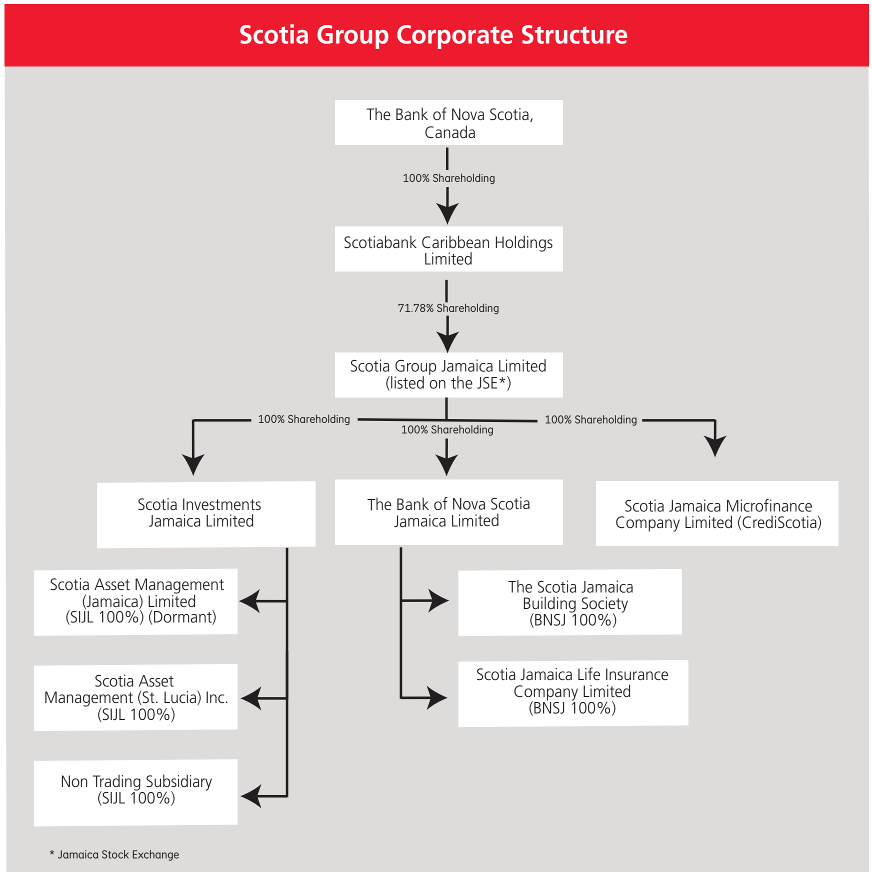
GROUP CORPORATE STRUCTURE

Scotia Group Jamaica Limited (Scotia Group), is a publicly listed holding company trading on the Jamaica Stock Exchange.

Scotia Group is the financial holding company for several entities operating within the financial sector. The Bank of Nova Scotia Jamaica Limited (BNSJ), which is a duly licensed commercial bank, has two (2) active subsidiaries: The Scotia Jamaica Building Society (SJBS) and Scotia Jamaica Life Insurance Company (SJLIC).

Scotia Investments Jamaica Limited (Scotia Investments), is licensed as a Member Dealer by the Jamaica Stock Exchange and a Securities Dealer by the Financial Services Commission. Scotia Investments became a wholly owned subsidiary of Scotia Group effective September 2017 following a Scheme of Arrangement which was sanctioned and approved by the Supreme Court of Jamaica. As a consequence all minority shares in Scotia Investments Jamaica Limited were canceled in consideration for the payments made in accordance with the Scheme of Arrangement, and the shares were delisted from the Jamaica Stock Exchange and the Trinidad & Tobago Stock Exchange. It's active subsidiary is Scotia Investment Management (St. Lucia) Inc.

Scotia Jamaica Microfinance Company Limited (CrediScotia) is the microfinance subsidiary of Scotia Group and was sold effective December 1, 2017.



CORPORATE GOVERNANCE

Our Board of Directors recognizes that a robust corporate governance structure is critical to sustaining value and preserving the long-term financial viability of Scotia Group for the benefit of all stakeholders.

The Board of Directors

The Board of Directors supervises and monitors management's performance against the Board approved parameters and compliance with applicable legal and regulatory requirements. They also provide advice and counsel to management to ensure that the key strategic objectives of the business are achieved.

Board Responsibility

While management undertakes the day-to-day functions of the Group's operations, it is the Board of Directors which remains ultimately accountable to the Company's stakeholders for the Company's performance and adherence to applicable laws and sound business practices.

The Board is responsible for the following key duties and functions (as outlined in its Board mandate):

- Overseeing governance principles and guidelines
- Overseeing and approve the Group's strategic direction, the organizational structure and succession planning of senior management
- Evaluating the actual operating and financial results of the Group against the Group's business objectives, business strategy and plans
- Identifying the principal business risks, review and approve key risk management policies and practices, and oversee the implementation of appropriate systems to enable compliance with such policies
- Overseeing the integrity of the Group's internal controls and management information systems
- Identifying, evaluating and selecting candidates for the Board of the Company and that of its subsidiaries
- Establishing committees of the Group and subsidiary Boards with appropriate responsibilities and appointing Chairs for these Committees.

At all times, our Directors are expected to exercise sound, independent, business judgment in the best interest of the Company and to balance the interests of various stakeholders. They may rely on the expertise of the Company's senior management, external advisors and auditors.

The Corporate Governance Policy, which is a Board approved Policy, is reviewed on an annual basis by the Board to ensure that its provisions remain relevant and in accord with local and international best practices, laws, regulations, and regulatory guidance.

A copy of our Corporate Governance Policy is available for review on our website at www.scotiabank.com/jm.

Board Composition

The Board is currently comprised of seven Directors chaired by Mr. Jeffrey Hall, our Independent Chairman.

Our Directors have diverse skill sets, experience and backgrounds which include local and international experience in banking, business, strategic management, accounting, education and law. Our Directors are recognised as strong leaders in their respective fields of work and experience.

DIRECTORS SCOTIA GROUP JAMAICA LIMITED

Five of our seven Directors are independent of the Company, its parent, subsidiaries and affiliates and six are Non-Executive Directors.

All Directors have access to and are encouraged to meet with the Chairman, the President and CEO and senior management. Time is reserved at the end of each Board meeting for discussions independent of management, among the Directors. This allows the Chairman to independently identify any issue for discussion with management and the Board.

Committees of the Group and Subsidiary Boards

The Board has delegated certain responsibilities to its Audit & Conduct Review Committee and its Executive & Enterprise Risk Committee. The Bank of Nova Scotia Jamaica Limited, which is the main hiring arm of the Group, has a Human Resource & Pension Committee to which functions are also delegated.

Below is the definition of an Independent Director extracted from the Corporate Governance Policy. A Director is not considered independent if:

1. The Director has been an employee of the Company within the last five years;
2. The Director is, or has been within the last three years, an employee or executive officer of any company within the Group or its parent company;
3. The Director has received or receives additional remuneration from the Company apart from a director's fee, participates in the company's share option plan or performance related pay scheme, or is a member of the Company's pension scheme;
4. The Director has close family ties with any of the Company's advisors, directors or senior employees;
5. The Director represents a significant shareholder;
6. The Director was a former Chief Executive Officer unless there has been a period of at least three years between ceasing employment with the Company and serving on the Board.

The table below highlights independent and non-independent Directors and their respective skill sets.

BOARD EXPERTISE	Independent (I)/ Non-Independent(NI)	General Management	Finance & Audit	Strategic Management	Banking	H.R & Education	Legal	Risk Management
Jeffrey Hall	I	✓	✓	✓			✓	✓
Barbara Alexander	I	✓	✓	✓		✓	✓	✓
Eric Crawford	I	✓	✓	✓				✓
A. Mark Hart	I	✓	✓	✓				✓
Brendan King	NI	✓	✓	✓	✓			✓
David Noel	NI	✓	✓	✓	✓		✓	✓
Evelyn Smith	I	✓	✓	✓				✓

Audit and Conduct Review Committee

The Terms of Reference of the Group's Audit and Conduct Review Committee are reviewed by the Committee and approved by the Board. The Committee has oversight responsibility for the Group and its subsidiaries in relation to the following areas:

- The integrity of the financial reporting and system of internal controls
- Ensuring compliance with legal and regulatory requirements
- The performance of the internal auditors and external auditors
- The identification and resolution of conflict of interest which may arise from transactions conducted by the Group and its subsidiaries

Prior to the adjournment of Committee meetings, time is reserved for the Chair of the Committee to meet independently with the Internal and External Auditors to discuss any areas of concern.

Executive & Enterprise Risk Committee

In accordance with its Terms of Reference, the Executive & Enterprise Risk Committee has oversight of the following areas for the Group and its subsidiaries:-

- Corporate Strategy and Annual Profit Plans
- Review of Board nominees prior to appointment
- Review of the Corporate Governance Policy
- Enterprise Risk Management
- Review of Board performance

Human Resources and Pension Committee

The Human Resources and Pension Committee has oversight responsibility for the following staff welfare and compensation matters:

- Staff compensation, including incentive programme
- Senior level organisational structure and staffing needs
- Mandates for the negotiation of collective bargaining agreements
- Performance of the Executive Team and Board appointed officers
- Pension Plan design and Investment policies
- Monitoring Pension Plan Fund performance against its policies, objectives and strategies
- Appointment and/or removal of the Sponsor Trustees of the Pension Fund

The Members of the Committee and their attendance at Committee meetings is reflected in the Table of Attendance below:

ATTENDANCE RECORD FOR DIRECTORS	Annual General Meeting SGJL	Board Meeting SGJL	Audit & Conduct Review SGJL & BNSJ	Executive & Enterprise Risk SGJL & BNSJ	Human Resources & Pension BNSJ
Number of Meetings	1	8	4	4	4
Jeffrey Hall ▲	1	8	4	4	3
Barbara Alexander ♦	1	8	3		4
Anthony Chang, CD *	1	3	2	2	
Eric Crawford **	1	4	1		
A. Mark Hart	1	6		1	
Charles Johnston, CD *	1	3	1	2	
Brendan King	1	8		1	
Andrew Mahfood ***	1	8	4		
Joseph Matalon, CD		1		1	
David Noel ****		2			
Evelyn Smith	1	8			4
Jacqueline Sharp *****	1	7		4	4

▲ Appointed Chair of the Executive & Enterprise Risk Committee, March 8, 2017

♦ Appointed Chair of the Human Resources & Pension Committee, March 8, 2017

* Retired Directors: Anthony Chang; Joseph Matalon; Charles Johnston March 9, 2017

** Appointed June 8, 2017

*** Appointed Chair of the Audit & Conduct Review Committee, March 8, 2017 Resigned December 7, 2017

**** Appointed September 5, 2017

*****Resigned October 31, 2017

- Review of actuarial reports, audited financial statements of the Fund and proposed changes to the Pension Plan Rules and benefits.

Directors Orientation & Training Opportunities

The Board of Directors are exposed to continuous training and education about the Group, its business line segments, products, and legal and regulatory changes impacting the operations. Training and education sessions are multimodal being comprised of quarterly Board Presentations from senior management, web-based training on a variety of governance, compliance and risk-based areas of concentration, and internal and external seminars on industry related matters. In addition, each year the Board is engaged by senior management on strategic initiatives facing the Bank and the global and local financial services industry.

Appointment, Term, Election & Retirement of Directors

All Directors serve for a one-year term and retire from the Board at each Annual General Meeting (AGM). They are nominated for election by the shareholders of the Company on the recommendation of the Board.

Subject to annual retirement, Directors appointed to the Board may serve on the Board until the earlier of age 70 or the completion of a 15 year term from the date of their first appointment. Where a Director is first appointed to the Board at an age over 60 he or she may serve the earlier of a term of 10 years or age 75. A Director appointed prior to March 1, 2013 who has attained the age of over 70 but who has not completed a 15 year term from the date of first appointment may serve the unexpired period of the 15 year term.

The date of first appointment for Directors appointed prior to March 1, 2013, shall be the date on which the Director was first appointed to the Board of The Bank of Nova Scotia Jamaica Limited.

Upon the recommendation of the Executive & Enterprise Risk Committee or any sub-committee of the Board charged with corporate governance, the Board may:-

1. in extenuating circumstances, consider and approve the extension of a Director's term beyond the stipulated period as is considered appropriate

2. reserve the right not to recommend a Director with an unexpired term to the shareholders for re-election at the Annual General Meeting

A Director shall resign from the Board upon the expiration of the respective term (including any variation of the term recommended by the Executive & Enterprise or other Committee) no later than 6 weeks prior to the date of the Annual General Meeting of the year in which the term expires.

Any Director employed to the Company shall cease to be a Director upon termination of any employment contract with the Company.

The Compensation Structure for Directors includes an annual retainer fee and per meeting fees as reflected in the Table of Fees below:

FEE STRUCTURE		Per Meeting Fee			Per Meeting Fee	
	Annual Retainer	Board	Audit & Conduct Review	Executive & Enterprise Risk	Annual Retainer	Human Resources & Pension
Expressed in JMD		SGJL			BNSJ	
Board Chairman	$2,700,000				$250,000	
Deputy Board Chairman	$2,400,000				$187,500	
Committee Chair (other than Audit Chair)	$1,500,000				$125,000	
Audit Committee Chair	$1,800,000				$125,000	
Audit Committee Members	$1,200,000				$125,000	
Other Directors	$1,020,000				$125,000	
All Directors		$60,000	$72,000	$54,000		$54,000

Director Compensation

The Board determines the form and amount of Director compensation based on peer reviews, with the aim of recruiting and retaining qualified and experienced candidates. Directors who are employees of Scotia Group are not compensated in their capacity as Directors.

Guidelines for Business Conduct

The Board of Directors, the management and all employees of the Group, its subsidiaries and affiliates are required to observe the Group's Code of Conduct and in this regard, annual certification of due compliance is required.

The Code of Conduct outline the Group's rules and expectations regarding proper business conduct and ethical behaviour of directors, officers and employees of the subsidiaries, including:

- following the law wherever the Group and its subsidiaries do business
- avoiding putting themselves or any of the subsidiaries in a conflict of interest
- conducting themselves honestly and with integrity
- keeping the subsidiaries' transactions, communications and information accurate, confidential and secure, and all customers' assets safe
- treating everyone fairly and equitably – whether customers, suppliers, employees or others who deal with the Group and its subsidiaries

In keeping with the established code of conduct, Board members and senior management of the Group's subsidiaries are subject to the Insider Trading Policy in respect of trading in the securities of the Company, its subsidiaries and affiliates.

Board Annual Self Evaluation

The Group's Board and the Boards of its subsidiaries conduct an annual self-evaluation of performance during the year. Directors are required to complete a questionnaire which tests a wide range of issues regarding the effectiveness of the Board governance. The issues include the quality of the information provided by management, the effectiveness of the operation of any Committee and a performance assessment of the Board and Chairman during the year.

Additionally, the Chairman of the Board and the Chair of the Executive & Enterprise Risk Committee conduct one-on-one interviews with each Independent Director to solicit feedback on the overall performance of the Board.

The results of the questionnaire are reviewed by the Executive and Enterprise Risk Committee and appropriate action taken to remedy any areas of concern. The process has been invaluable to the continuous improvement of the governance process.

Scotia Group remains committed to good corporate governance practices and continues to comply with the applicable laws and regulations, international best practices and guidance from the Jamaica Stock Exchange, the Bank of Jamaica, the Financial Services Commission, and other regulators.

BOARD OF DIRECTORS

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1. Jeffrey M. Hall

Chairman

Jeffrey M. Hall is the Chief Executive Officer and also Director of Jamaica Producers Group Limited and has worked with that Company since 2002. He is the Chairman of Kingston Wharves Limited and a member of the Board of Directors of several companies including Blue Power Group Limited and the National Housing Trust. He has served as a Director of the Jamaica Stock Exchange and Bank of Jamaica.

Mr. Hall holds a Juris Doctorate from the Harvard Law School, a Master of Public Policy from Harvard University, USA and a Bachelor of Arts degree in Economics from Washington University, USA.

Scotiabank Board Details:-

- Chairman: Scotia Group Jamaica Limited (SGJ) since March 4, 2016 The Bank of Nova Scotia Jamaica Limited (BNSJ) since March 3, 2016 (Director of both companies since November 26, 2007); Scotia Investments Jamaica Limited (SIJL) since November 27, 2014; BNSJ & SGJ Executive & Enterprise Risk Committee since March 8, 2017;
- Member BNSJ & SGJ Audit & Conduct Review Committee; SIJL Audit & Conduct Review Committee, and BNSJ Human Resource & Pension Committee

2. Barbara A. Alexander

Barbara A. Alexander is a practicing Attorney-at-Law since 1976. She is a Consultant of the law firm, Myers, Fletcher & Gordon. Her experience includes Banking and Finance, Project Finance, Real Estate and Commercial Law.

Ms. Alexander serves on the Boards of CVSS/United Way of Jamaica and the Arts Foundation of the Edna Manley College. She is a member of the Jamaican Bar Association and the Law Society of England, United Kingdom.

A graduate of The University of the West Indies, Ms. Alexander holds a Bachelor of Science Honours degree in Accounting.

Scotiabank Board Details:-

- Director, Scotia Group Jamaica Limited (SGJ) since November 26, 2007
- The Bank of Nova Scotia Jamaica Limited (BNSJ) since November 26, 2007
- Scotia Investments Jamaica Limited (SIJL) since December 14, 2006
- Chair, The Scotia Jamaica Building Society, BNSJ, Human Resource & Pension Committee, and SIJL, Human Resource & Pension Committee
- Member BNSJ & SGJ Audit & Conduct Review Committee and SIJL Audit & Conduct Review Committee

3. Eric Crawford

Eric Crawford presently chairs the Public Accountancy Board and is also the Chairman of Jamaica International Financial Services Authority (JIFSA), which is a statutory body mandated to advance the creation of an International Finance Centre in Jamaica. He is highly regarded in the business community for his ability to develop innovative, workable solutions for addressing the taxation needs of a wide variety of businesses. He was a partner with PricewaterhouseCoopers (PwC) Jamaica, for 26 years.

Mr. Crawford is a Fellow of the Institute of Chartered Accountants of Jamaica (ICAJ), of which he served as President between 1995 and 1997, as well as the UK Chartered Association of Certified Accountants where he was Jamaica's Representative on its International Assembly in 1997/98.

Scotiabank Board Details:-

- Director, Scotia Group Jamaica Limited (SGJ) since June 8, 2017 and The Bank of Nova Scotia Jamaica Limited (BNSJ) since June 8, 2017
- Member BNSJ Audit & Conduct Review Committee

4. A. Mark Hart

Mark Hart is a founder, Executive Chairman and controlling shareholder of Caribbean Producers (Jamaica) Limited, a leading, fast growing food/service distributor listed on the Junior Market of the Jamaica Stock Exchange. He is a member of several Boards including We Care of Cornwall Regional Hospital, Itel-BPO Solutions and Alpha Angels Investor Group.

He holds a Bachelor of Science degree in History and Motion Picture Film Production, from the University of Miami and participated in Executive Education at Columbia University, USA. Among his most recent accomplishments is the documentary film, Rise Up.

Scotiabank Board Details:-

- Director, Scotia Group Jamaica Limited (SGJ) since August 5, 2016, and The Bank of Nova Scotia Jamaica Limited (BNSJ) since August 5, 2016
- Member BNSJ & SGJ Executive & Enterprise Risk Committee

5. Brendan King

Brendan King is the Senior Vice-President, International Banking, The Bank of Nova Scotia (Canada) with responsibility for Scotiabank's personal, commercial, wealth management and insurance operations in all countries in the Spanish and English Caribbean, Central America, Uruguay and Thailand and also the Bank's investment in Bank of Xian, China.

Mr. King's career started with The Bank of Nova Scotia (Canada) in 1990 in Commercial Banking. He has held numerous positions including senior roles in Cayman Islands, Trinidad and Tobago and the Bahamas. In 2004 he joined the Asia Pacific region as Country Head for Greater China and led the Thanachart Bank investment in 2007 and the acquisition of Siam City Bank in 2010 where he became SVP & Deputy CEO of the combined bank, Thailand's 5th largest.

He holds an M.B.A. in Finance and International Banking and a B.A. Business & Economics from York University, Toronto, Canada.

Scotiabank Board Details:-

- Director, Scotia Group Jamaica Limited (SGJ) since August 5, 2016 and The Bank of Nova Scotia Jamaica Limited (BNSJ) since August 5, 2016
- Deputy Chairman, SGJ and BNSJ since March 8, 2017
- Member BNSJ Executive & Enterprise Risk Committee

6. David Noel

David Noel is the SVP & Head of the Caribbean Central & North and President & CEO, Scotia Group Jamaica Limited. He assumed the position on November 1, 2017 after serving as the Deputy CEO, Scotia Group Jamaica Limited from November 16, 2016 to October 31, 2017. Prior to his Deputy CEO role, he served as the Managing Director for the Caribbean East. David joined Scotiabank Jamaica in 2001 as an Attorney-at-law in the Corporate & Legal Department. He held several senior positions before moving to Toronto in 2008 on a leadership development program.

David is an experienced banker, attorney-at-law and CFA Charterholder. He completed his Bachelor of Laws degree at the University of the West Indies (Cave Hill) and was called to the bar in Jamaica in 1997. He started his career as an Attorney at Myers Fletcher & Gordon, the largest law firm in Jamaica.

Scotiabank Board Details:-

- Director, Scotia Group Jamaica Limited (SGJ) since September 5, 2017, The Bank of Nova Scotia Jamaica Limited (BNSJ) since September 5, 2017, Scotia Investments Jamaica Limited (SIJL) since September 5, 2017; Scotia Jamaica Life Insurance Company Limited, The Scotia Jamaica Building Society
- Chairman, Scotia Jamaica Microfinance Company Limited
- Member BNSJ & SGJ Executive & Enterprise Risk Committee and BNSJ Human Resource & Pension Committee

7. Evelyn Smith

Evelyn Smith manages the Tensing Pen Hotel in Negril, one of Jamaica's leading character hotels. She serves on the Board of Caribbean Hotel and Tourist Association (CHTA) and has served on the Boards of Jamaica Tourist Board (JTB), Jamaica Vacations (Jamvac), Tourism Enhancement Fund (TEF), Advisory Council of the Passport Immigration and Citizen Agency (PICA), and Negril Chamber of Commerce.

Mrs. Smith has been actively involved in the tourism industry since the late 1980's, and is Past President of Jamaica Hotel and Tourist Association (JHTA). She was the recipient of the JHTA Hotelier of the Year Award in 2008 and awarded the Prime Minister's Medal of Appreciation for Service to Tourism in 2013.

A graduate of the prestigious Wellesley College in Massachusetts, Mrs. Smith holds a Bachelor's degree with majors in French and Spanish, and an MBA with Honours from Nova Southeastern University, USA.

Scotiabank Board Details:-

- Director, The Bank of Nova Scotia Jamaica Limited (BNSJ) since December 15, 2015
- Member BNSJ Human Resource & Pension Committee

EXECUTIVE/SENIOR
MANAGEMENT TEAM


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1. **David Noel**
   President & CEO

2. **Yanique Forbes Patrick**
   Vice President
   Marketing

3. **Richard Fraser**
   Vice President
   Senior Legal Counsel
   & Corporate Secretary

4 **H. Craig Mair**
   Senior Vice President
   Corporate and Commercial
   Banking

5 **Lissant Mitchell**
   President
   Scotia Investments Jamaica Limited

6. **Rosemarie A. Pilliner**
   Executive Vice President
   Caribbean North Shared Services

7. **Dr. Adrian Stokes**
   President
   Scotia Jamaica Life Insurance
   Company

8. **Julie Thompson-James**
   Vice President
   Business Support

9. **Audrey Tugwell Henry**
   Executive Vice President
   Retail Banking
   Caribbean North & Central

10. **Gary-Vaughn White**
    Vice President
    Treasury

11. **Gladstone Whitelocke**
    Senior Vice President
    Non-Branch Sales
    & General Manager
    The Scotia Jamaica Building
    Society

12. **Michelle Wright**
    Chief Financial Officer
    Caribbean Central

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Scotia Group Jamaica Limited (Scotia Group) has delivered more than 128 unbroken years of high quality financial services to Jamaica. Today we are supported by a network of 32 banking and investment branches and 1,876 employees. We provide a broad range of financial services through our subsidiaries to a wide base of personal, commercial, corporate and government clients across Jamaica.

Subsidiary	Services Provided
The Bank of Nova Scotia Jamaica Limited	Deposits, Lending, Foreign Exchange and Payments
Scotia Jamaica Life Insurance Company Limited	Credit and Life Insurance, Retirement Accumulation and Payout
Scotia Investments Jamaica Limited	Investments, Structured Financing
The Scotia Jamaica Building Society	Mortgage Lending, Deposits

OUR ENVIRONMENT

Macroeconomic backdrop remains positive

Scotiabank operated in a stable macroeconomic environment with indicators overall trending positively. After nine quarters of consistent positive growth, GDP, for the quarter ended June 2017 declined slightly by 0.1% due to adverse weather conditions. Notwithstanding this, for the nine months of 2017 GDP grew 0.3%. Inflation rates, over the 12-month period, have started to trend upwards, moving to 4.7% as at October 2017 (2016: 1.8%). This was primarily driven by weather related shocks, which negatively affected agricultural output. Inflation rate however, is anticipated to stabilize over the next few quarters given expectations of continued fiscal restraint by the Government of Jamaica (GOJ), improvement in agricultural supply and moderate changes in international commodity prices.

Jamaica successfully met its targets under the new precautionary Stand-By Agreement with the International Monetary Fund (IMF). This new agreement, which has a stronger focus on growth, is an active force behind the continued reduction in the country's debt profile with debt-to-GDP ratio falling from 120% in FY2015/16 to 115% in FY2016/17. Additionally, the heavy liquidity that exists in the market continued to push interest rates to record lows.

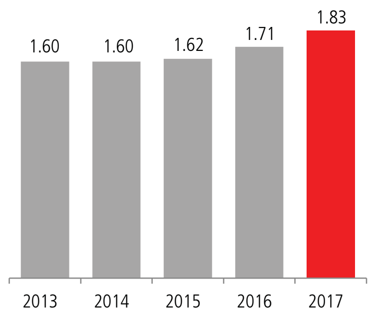
Business confidence remained high. This underscores the continued optimism of businesses around the future prospects of the country. Consumer confidence, after suffering a sharp decline in Q1 2017, recovered strongly on the back of the GOJ's economic policies with a resultant improvement in job opportunities. The sustained levels of confidence juxtaposed with the low interest rate environment drove healthy demand for credit. On the flip side, high unemployment levels and weak economic growth continued to impact consumers' purchasing power.

Financial Sector Performance

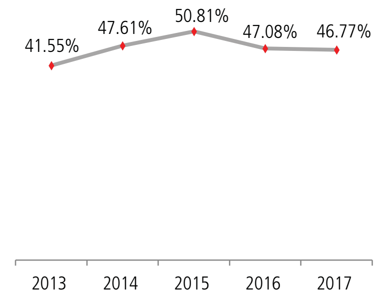
The financial sector remained vibrant with loans growing 9.2% up to June 2017 vs. 19.9% last year. The overall growth was largely due to continued improvements in local economic activity. Deposits grew 12.1% vs. 17.6% last year. Total assets expanded 10.1% compared to 17.7% last year. In the commercial banking sector, loans to the private sector increased by 11.5% or $26.86 billion (vs. 34.2% or $59.2 billion in 2016) mainly due to growth in the professional & other services and tourism sectors. Credit quality also improved with non-performing loans representing 2.7% of total loans as at June 2017, lower than the 3.5% recorded in 2016.

The Collective Investment Scheme industry (unit trusts and mutual funds) increased 5.5% to US$1.7 billion during the year ended October 2017, as investors continued to reposition from repurchase agreements into these investment vehicles. Meanwhile, gross life insurance premiums sold in the industry grew by 6.7% for the year.

Dividends Per Share



Dividend Payout Ratio



Financial Highlights	31-Oct-17 $millions	31-Oct-16 $millions
Total Assets	490,883	477,392
Investments	158,757	165,087
Loans (net of provisions for losses)	166,494	166,827
Deposits by the Public	260,559	248,416
Liabilities under repurchase agreements and other client obligations	38,511	46,986
Policyholders' Fund	45,171	44,765
Shareholders' Equity	102,432	91,856
Net Profit after Tax	12,407	11,591
Total Comprehensive Income	16,423	12,163
Return on Average Equity	12.58%	12.65%
Productivity Ratio	51.09%	53.38%
Operating Leverage	4.61%	7.17%
Earnings per share (cents)	391	363
Dividends per share (cents)	183	171

OVERVIEW OF FINANCIAL RESULTS

Scotia Group's net profit attributable to common shareholders for 2017 was $12.4 billion, representing a return on equity of 12.6%. These results translate to earnings per share of $3.91, up from $3.63 last year. Dividends per share was $1.83, representing a 46.77% dividend payout ratio.

Our results were achieved from our diversified business lines, as we developed sustainable revenue streams, while exercising prudent risk management. Our core business is performing well, with strong growth in retail loan volumes contributing to the increase in net interest income, despite lower margins; and solid performance from our Treasury and Asset Management business lines that boosted our non-interest revenues. We grew our revenues while managing expenses, resulting in an improvement in our productivity ratio from 53.38% to 51.09%.

Scotia Group is one of the largest banking and financial services organisations in Jamaica, with assets of $491 billion and customer deposits of $261 billion as at October 31, 2017. Our growth was achieved through client acquisition and deepening relationships across all customer segments: consumer, small and medium enterprises, corporate and commercial. The quality of our loan portfolio declined slightly, with non-accrual loans as a percentage of Gross Loans recorded at 2.7% vs. 2.6% last year.

Our Asset Management business in Scotia Investments continued to grow, with the total value, of clients' funds in Collective investment Schemes growing by $7.2 billion for the year.

Scotia Group's capital base continued to strengthen, growing by $10.6 billion year over year, and exceeding the increase in capital requirements from our growing business. This further solidified our resilience to any further increased capital requirements in the future, and places us on a firm footing to support our strategic initiatives.

OUR STRATEGY

Our strategic journey is well defined, consisting of five pillars, deeply focused on our customers and built on a strong risk culture. Our five strategic pillars keep the focus on balancing key growth opportunities, structural transformation while delivering a superior experience to customers. These are the mainstays we believe will have the greatest impact and drive long-term value creation for all stakeholders.

Customer Focus: We want to deepen primary relationships with our customers by placing them at the center of everything we do.

Our customers are our top priority and are placed at the centre of the decision-making process throughout our organisation. We take pride in understanding and anticipating their needs in order to provide them with the best advice, solutions and options. We continue to introduce strategies to deepen our relationships with customers and equip our employees to effectively resolve customer concerns at the first point of contact. We are committed to providing a superior and seamless customer experience through the enhancement of our distribution channels to better suit all client segments. Scotiabank remains focused on maintaining the trust and confidence of customers, while helping them to become financially better off.

Leadership and Employee Engagement: We are committed to creating and maintaining an inclusive environment, demonstrated through people and our practices that allows us to build leadership capacity and bench strength.

Developing and nurturing our talented employees is a high priority for Scotiabank. Our robust recruitment practices are designed to attract a diverse pool of high potential team members; and the required knowledge and skills are honed through our strong onboarding programmes. We remain committed to strengthening our leadership capability by grooming and growing talent from within, to ensure the Group has the right people to drive superior performance. We are increasing our focus on performance management by enhancing our learning and development, coaching and performance measurement processes so that employees can reach their full potential. We consistently reinforce our culture of openness, collaboration, accountability, and personal development to maintain strong engagement and ensure that the Group continues to deliver the best results for all stakeholders.

Structural Cost Transformation: We are optimizing our operations to be able to better serve our customers and lower costs.

To build a more efficient, agile and better bank we are investing in levers such as technology, process improvements and organizational design to reduce complexity and improve productivity. We also maintain our thrust of identifying synergies and leverage opportunities for regional partnerships to improve our structure. Scotiabank recognizes our customers' need for convenience and speed and we will continue to optimize our distribution channels. Over the long-term, our intention is to lower operating costs while we deliver a superior experience to customers and generate good shareholder value.

Digital Transformation: We are re-imagining the customers' experience through innovation to make it easier for them to do business with us.

We have been rolling out our Digital Roadmap with the objective of differentiating and enhancing the customers' experience at all touch points. As digital trends and changing customer preferences re-shape the financial services industry, we are introducing more digital capabilities so that our customers can conduct business with us how, when and where they want. We are heightening efforts to drive digital and mobile banking as well as other innovative solutions to improve outcomes for our customers.

Business Mix Alignment: We are focused on knowing our customers better to anticipate and proactively provide value-added advice and solutions.

At the heart of Scotiabank's strength and success are its customers and its diverse business model. This diversity provides our customers with a wide-ranging product and service suite and allows us to devise and execute tailor-made solutions to meet their unique and evolving needs. We continue to enrich and build on a culture of cross-group collaboration through stronger sales processes, improved performance measurements and comprehensive training of the sales force. Employees work cohesively across our core business-lines of Retail and Commercial Banking, Insurance and Wealth Management to provide our customers with superior and holistic financial solutions.

Scotiabank continues to operate at the highest standard of business ethics and remains compliant with all laws and regulations. The Group has benefitted from a strong tradition of internal audit and compliance procedures, as well as, a comprehensive, well-articulated Risk Appetite Framework. Our strategy continues to help us remain strong, stable and competitive, benefitting customers and ensuring that we provide solid returns to shareholders.

GROUP FINANCIAL PERFORMANCE

Total Revenue

Total revenue was $39.5 billion in 2017, compared to $37.3 billion for 2016. We achieved revenue growth in our retail, commercial and insurance services business lines, while our investment management and treasury revenues declined

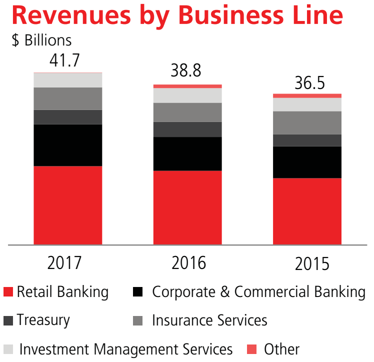
- **Retail (+6.2%):** Loan growth was led by residential mortgages which grew by 9.0% or $2.5 billion. Our overall retail loan growth of $3.6 billion or 3.5% resulted from higher loan averages and greater volumes.

- **Commercial (+24.0%):** Improvement in our JMD loan balance as well as higher deposit and payment services and increases in our merchant services volumes were the main contributors to revenue growth.

- **Insurance Services (+17.0%):** The growth in the retail loan portfolio contributed to the growth in Insurance revenues through higher volumes of credit insurance. Actuarial releases also contributed a significant portion of the year-over-year increase, due to the one time release of accumulated actuarial provisions caused from the changes in the insurance tax regime

- **Investment Management (-0.5%)**: Reduction in interest income resulted in the decline in revenues as asset yields declined year-over-year, and as we continued to pursue our strategy to grow our Asset Management segment and reduce exposure to the inherent risks in an on-balance sheet business model. This has resulted in lower net interest income but higher fees from the Asset Management segment of 13% year-over-year.

Revenues by Business Line



- **Treasury (-4.0%):** Lower yields on the investment portfolios

Net Interest Income

JMD loan volumes improved across our business lines, and eclipsed the effect of lower asset yields on our loans and investments this year. As a result, we recorded net interest income of $26.6 billion in 2017, up $1.2 billion or 5.0% from last year. The Group's average earning assets increased by 5.5%, while the net interest margin (net interest income as a percentage of average earning assets) declined relative to the previous year by 3 basis points. Average yields on earning assets were lower by 22 basis points as a result of lower rates and competitive pressures. Year over year, the growth in volumes contributed a positive $1.39 billion to net interest income, offsetting the negative impact from declining yields of $119 million.

Other Income

Other income, defined as all income other than interest income, was $15.0 billion for this year, up $1.6 billion or 12.2% from last year.

- The increase in Insurance revenues ($2.79 billion vs. $2.37 billion) was due to one-off actuarial releases in 2017 related to the change in valuation assumptions.
- Fees and Commissions ($8.6 billion vs. $7.02 billion) were driven by higher transaction volumes and the growth in our credit card, merchant services, and asset management business.
- Foreign Exchange revenues decreased ($2.49 billion vs. $3.63 billion) due mainly to lower FX revaluation gains.

Net Interest Margin Analysis ($'000)	2017	2016
Rate Variance	(119,044)	(826,965)
Volume Variance	1,387,246	1,928,038
Net Interest Income	**1,268,202**	**1,101,073**

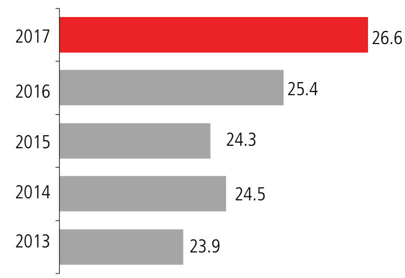
- Trading revenues from securities were up ($342 million vs. $322 million) due to higher volumes from increased market activities.

Non-Interest Expenses

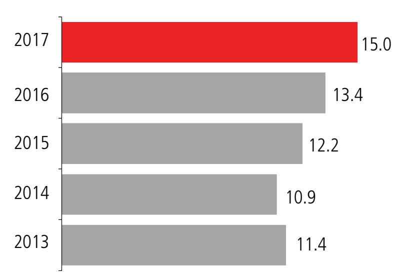
Non-Interest expenses for the year totaled $21.3 billion, up $595 million or 3% over last year. Salaries and employee benefits which represent 50% of our operating costs, increased by 2.0%. Property, marketing, communication, technical expenditures and business taxes also increased year over year. However, we realized savings in system related and other expenses.

Our productivity ratio, which is calculated as total expenses (excluding impairment losses on loans) as a percentage of total revenue, improved from 53.38% to

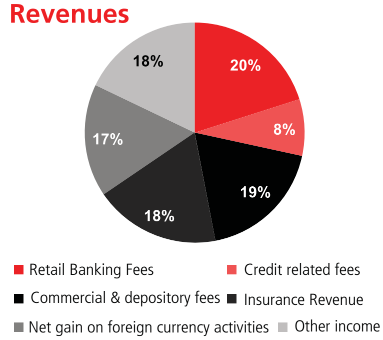
Net Interest Income
$ Billions



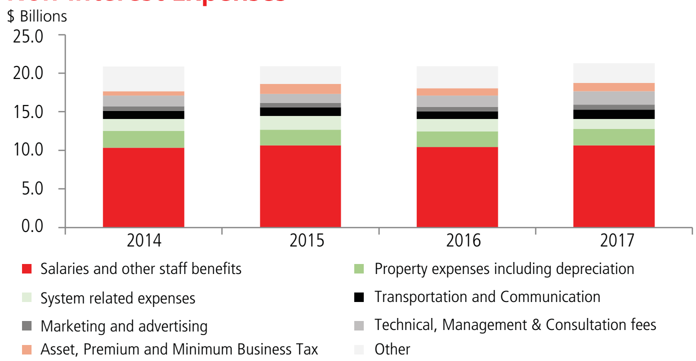
Other Income
$ Billions



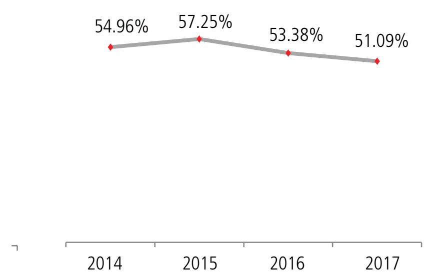
Sources of Non-Interest Revenues



Non-Interest Expenses



Productivity Ratio



51.09% in 2017, due to our efforts to grow revenues across all business lines while keeping expenses flat.

Taxes

In 2017, our income tax expense was $5.79 billion, up $744 million or 14.7% from last year, as our pre-tax profits grew by $1.56 billion or 9.38%. Our effective income tax rate increased to 31.8% from 30.3% as a result of the relative growth in net revenues in the 33.33% tax bracket. When Asset Tax of $1.07 billion is added, the tax expense for the year (excluding irrecoverable GCT) equated to 35.6% of our pre-tax income.

Taxation Charge	2017	2016	2015
Profit Before Taxes	**18,201,458**	**16,640,943**	**14,244,136**
Current Income Tax:			
Income tax calculated at 33 1/3%	4,519,136	3,600,792	2,875,095
Income tax calculated at 30%	410,888	491,071	466,696
Income tax calculated at 25%	1,071,442	933,259	829,157
Adjustment for (over)/under provision of prior year's charge	-	(11,603)	58,974
	6,001,466	**5,013,519**	**4,229,922**
Deferred Income Tax	(207,298)	36,822	(119,791)
Taxation Charge	**5,794,168**	**5,050,341**	**4,110,131**
Effective Tax Rate	**31.8%**	**30.3%**	**28.9%**

Credit Quality

Impairment losses on loans were $2.2 billion, up $746 million from last year due to growth in the retail loan portfolio and higher write-offs on our unsecured portfolio. Total non-accruals as at October 31, 2017 was $4.5 billion, up $134 million or 3% from October 31, 2016. This represented 2.7% of gross loans and 0.9% of total assets; slightly up from 2.6% of gross loans, and 0.9 as a percentage of total assets as at October 31, 2016. The Group's NALs as a percentage of gross loans remain in line with the industry.

The total allowance for loan losses reflects the higher levels of IFRS and regulatory provisions. Losses which fall outside of the IFRS provisions are charged to the income statement, while those which meet the regulatory requirements but exceed the IFRS standards are credited to a non-distributable loan loss reserve. The table on page 26 shows the IFRS and regulatory provisions for the past three years.

Loan Loss Provision Analysis ($'000)	2017	2016	2015
Gross Loans	168,813,395	168,734,577	156,402,493
Non Accrual Loans	4,513,674	4,379,885	4,502,060
IFRS Loan Loss Provisions	2,319,804	1,907,797	1,903,120
Loan Loss Reserve	2,687,050	3,143,875	3,204,491
Total Regulatory Loan Loss Provision	5,006,854	5,051,672	5,107,611
IFRS Loan Loss Provision as a % of Gross Loans	1.4%	1.1%	1.2%
IFRS Loan Loss Provision as a % of Non Accrual Loans	51.4%	43.6%	42.3%
Total Regulatory Loan Loss Provision as a % of Gross Loans	3.0%	3.0%	3.3%
Total Regulatory Loan Loss Provision as a % of Non Accrual Loans	110.9%	115.3%	113.5%
Total Assets	490,882,681	477,391,654	432,937,283
Net Loans (after IFRS LLP)	166,493,591	166,826,780	154,499,373
NAL : Gross Loans	2.7%	2.6%	2.9%
NAL : Net Loans	2.7%	2.6%	2.9%
NAL : Total Assets	0.9%	0.9%	1.0%

GROUP FINANCIAL CONDITION

Assets

Total assets increased by $13.5 billion or 2.8% to $491 billion as at October 31, 2017. Loans declined by $0.3 billion during the year while our stock of investment assets fell $6.3 billion.

Cash Resources

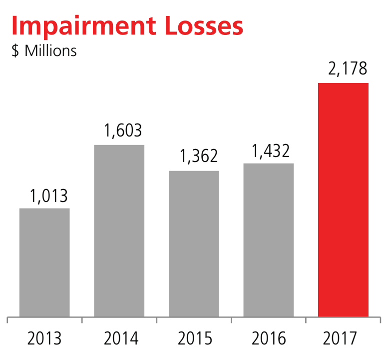
Our cash resources held to meet statutory reserves and the Group's prudential liquidity targets stood at $116.5 billion, up from $106.3 billion last year due to increased liquidity from inflows of retail and commercial deposits and the general increase in market liquidity. We continued to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

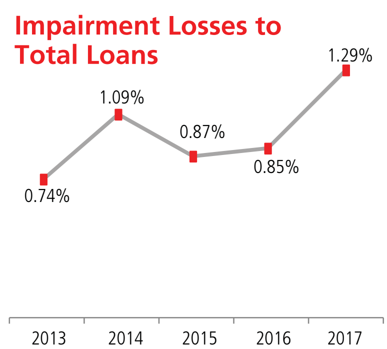
Securities

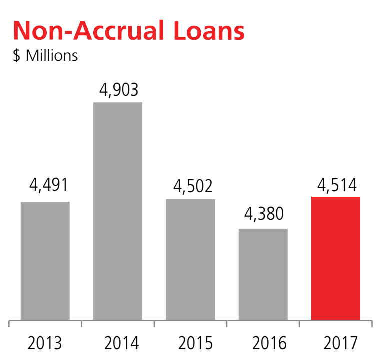
Total investment securities, decreased by $6.3 billion to $158.8 billion mainly due to our customers' transition to off balance sheet products, as well as higher volumes of short term placements.

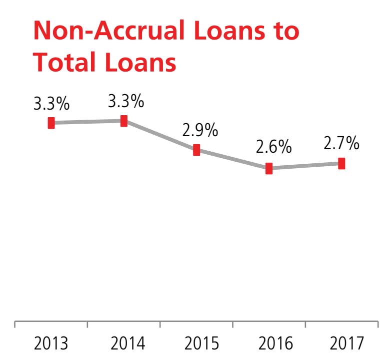
Loans

Our loan portfolio was flat year over year. Loans, after allowance for impairment losses closing at $166.5 billion. There was mixed performance on our business lines with residential mortgages showing strong growth of 9.0%, personal and credit cards increasing by 1.6%, whilst Business and Government declined by 5.3%.









Liabilities

Total liabilities were $388.5 billion as at October 31, 2017, an increase of $6.5 billion or 1.7% from last year, driven by increases in our retail and commercial customer deposit base.

Deposits

Deposits by the public increased to $260.6 billion, up from $248.4 billion in the previous year. This $12 billion growth in core deposits was reflected in higher inflows from our retail and private sector portfolio as we expanded our customer base and deepened relationships with customers.

Obligations related to repurchase agreements, capital management and government securities funds

This mainly represents deposits by clients of Scotia Investments, in addition to other wholesale funding. The net of these obligations decreased by $8.5 billion or 18.0% during the year as SIJL clients reduced repurchase agreement holdings and increased their investment in the unit trusts and mutual funds offered by the company. Consequently, our fund and asset management portfolios grew by $18 billion or 14.6%, and we remain a dominant player in the collective investment scheme industry.

Policyholders' Fund

The Policyholders' Fund reflects the insurance contract liabilities held at Scotia Insurance for our flagship product ScotiaMINT. The Fund grew by 0.9% to $45.2 billion.

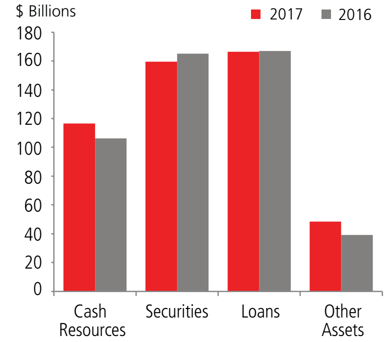
Shareholders' Equity

Total shareholders' equity grew to $102.4 billion in 2017, $10.6 billion more than the prior year fuelled by retained earnings.

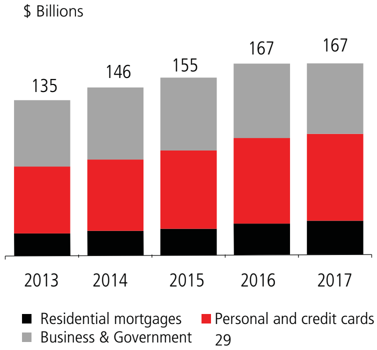
Shareholders' Return

Our total shareholder return of 67.1% (including both dividends and change in the price of the Group's common shares) was consistent with the growth in the returns of the Jamaica Stock Exchange (JSE) and JSE Select Indices. Returns this year yielded 188.3% over the last 3 years and 213.9% over the last 5 years.

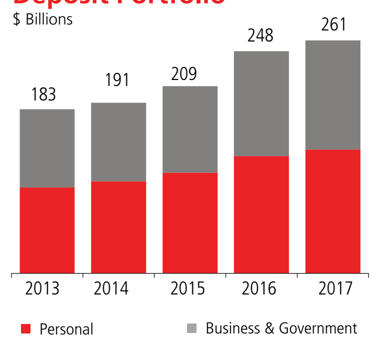
Total Assets



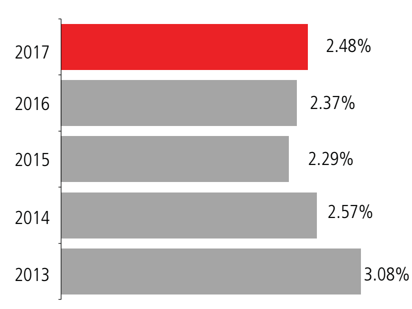
Loan Portfolio



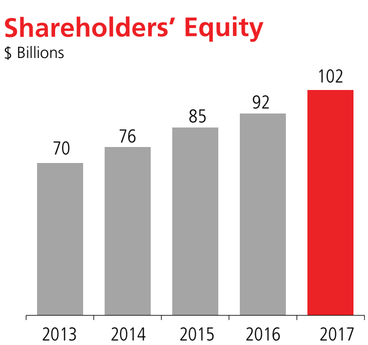
Deposit Portfolio

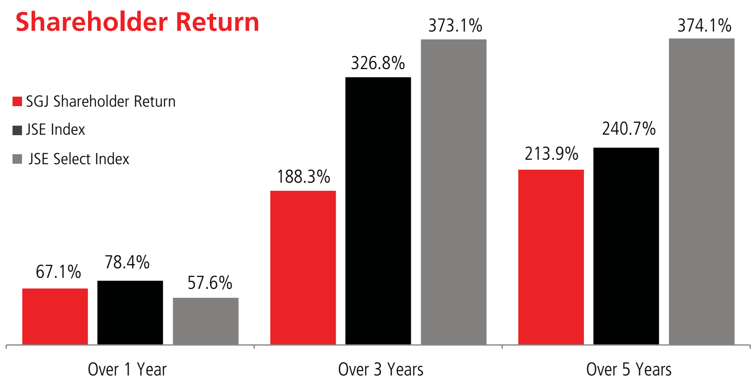


Return on Average Assets

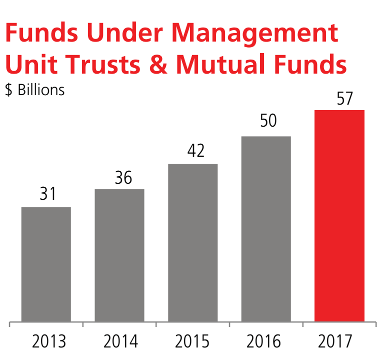


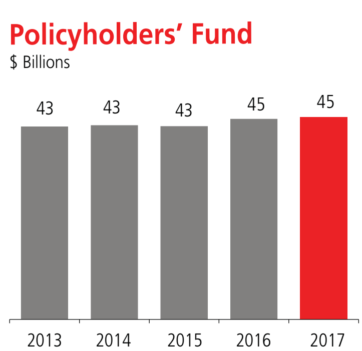
Shareholder returns for the 3 and 5 year horizons were largely influenced by the 83.1% rise in the Jamaica Stock Exchange (JSE) Index in the 2015 financial year and the 75.6% increase during the 2017 financial year. Scotia Group's closing share price grew by $19.77 or 62.8% this year. Our consistent dividend policy continues to be a key component of shareholder return. While 93.6% of the 67.1% shareholder returns this year came from share price appreciation, 73.5% of the 5 year return of 214% came from dividends. We remain focused on achieving sustainable, long-term earnings growth and maintaining stable dividend income streams to our shareholders.

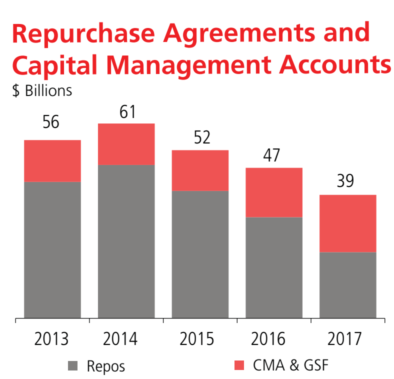




Shareholder Returns For the year ended	2017	2016	2015
Closing Market Price ($)	51.25	31.48	26.87
Dividends Paid ($)	1.83	1.71	1.62
Dividend Yield	4.28%	5.53%	7.01%
Change in share Price	62.83%	17.16 %	39.74 %
Total Annual Shareholder Return	67.11%	22.69%	46.75 %







Capital Management

Scotia Group is committed to retaining a strong capital base to support the risks associated with its business lines, ensuring the safety of customers' funds and fostering investor confidence. This policy also allows the Group to take advantage of growth opportunities as they arise and invest further in our core business to enhance shareholder returns. The Group's capital management framework includes a capital adequacy assessment process to ensure that the Group can meet current and future risks and achieve its strategic objectives.

Regulatory capital

Capital ratios are a means to monitor the capital adequacy and the financial strength of financial institutions. Capital adequacy standards for Jamaican financial institutions are regulated by the Bank of Jamaica for Deposit Taking Institutions and the Financial Services Commission for Securities Dealers and Insurance Companies. These standards are largely guided by international criteria set by the Basel Committee on Banking Supervision (BCBS).

During the year, the total capital base grew beyond the increase in capital requirements for the Group and remained well in excess of regulatory requirements.

CAPITAL ADEQUACY	2016 Capital Adequacy Ratio	Increase in Capital Requirement ('000s)	Increase in Capital Base ('000s)	2017 Capital Adequacy Ratio	Regulatory Requirement	Excess over Regulatory Requirement
Banking and Building Society	14.0%	851,265	7,030,536	16.4%	10.0%	6.4%
Investment Management	40.6%	340,531	1,216,004	40.1%	10.0%	30.1%
Life Insurance	627.0%	(79,770)	(1,571,684)	549.0%	150.0%	399.0%

Business Outlook

The consistency of the GOJ, over the past four years, to meet the quantitative targets and structural benchmarks established with the IMF, points to a strong adherence to macroeconomic discipline, which anchors stability and growth. Inflation rate is expected to remain subdued while interest rate will likely hover around record lows. The introduction and implementation of the BOJ Foreign Exchange Intervention and Trading Tool (B-FXITT) which provides greater transparency and price discovery to the FX market is anticipated to reduce volatility.

The upshot of these favourable indicators facilitate an environment where business and consumer confidence can flourish, which bodes well for customers and growth in all business lines within Scotiabank Group.

Growth impediments such as lagging labour productivity and high levels of crime will continue to weigh on the pace of expansion in economic activity; limiting consumer disposable income. Moreover, a low inflationary environment combined with an accommodative monetary policy bias postulated by the Central Bank will continue to pressure interest margins. These circumstances intensify competition for profitable customers in the marketplace. The addition of two new entrants to the commercial banking space as well as the emergence of non-traditional players with innovative strategies presents additional sources of competition for key services offered by the industry.

The response of Scotiabank to this increasingly competitive environment is embedded in our strategy as we will, through our deeper customer focus, firmly establish our Company as the preferred brand in the marketplace and to reinforce the depth of our local and international presence, as well as our capability to offer enhanced, holistic solutions across our business lines. With heightened focus on augmenting our digital and alternate banking platform, we will continue to optimise our operations to deliver services to our customers at a lower cost and in a more convenient manner. Our people remain our key strategic resource and we will continue to develop our talent and sharpen our focus on performance management.

In light of increased competition in the retail space, our focus will be on utilizing the full range of products across all our business lines to proactively identify and provide enhanced solutions to our customers' unmet financial needs. We will continue to enrich the experience of our customers by offering them greater speed and convenience in doing business with us, as we further improve the efficiency of our retail network and deliver more of our services through digital and alternate channels.

We expect our Commercial and Small Business customers to grow their operations as they seek to benefit from an improving macroeconomic environment and elevated business confidence. We will capitalize on this opportunity to offer additional financial support as well as to advance our customers' efficiency through enhanced payment solutions. Innovative service delivery and product development will be key components of our Asset Management and Insurance businesses that will be ramped up to drive further growth.

We are optimistic about our business prospects in the year ahead as the Group is well positioned to support the growth and stability of our economy and to capitalize on the opportunities that will be created. We will maintain our discipline in the execution of our strategic agenda, which will persistently drive long-term shareholder value.

Over the next year, we will continue our thrust to remain the financial partner of choice, leveraging our growing global presence as well as our team of expert professionals, to offer a full range of tangible solutions to our customers that will allow them to achieve their financial objectives.

RISK MANAGEMENT

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Group's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

Three Lines of Defence

Scotia Group's risk management framework is predicated on the three-lines-of-defence model. Within this model:

- The Business Lines acts as the first line of defence by identifying, owning, assessing and managing the risks, while
- Risk Management units and other control functions (the second line) provide independent oversight and objective challenge to the first line of defence, as well as measuring, monitoring, reporting and control of risk.
- Internal Audit Department (the third line) provides assurance that control objectives are achieved by the first and second lines of defence.

Risk Management Framework

Scotiabank has a robust, disciplined risk management framework supported by a strong risk management culture where risk management is a responsibility shared by all of the Group's employees.

This framework is subject to constant evaluation to ensure that it meets the changes in the markets in which the Group operates, including regulatory standards and industry best practices.

The Group's risk management framework is applied on an enterprise-wide basis and consists of five key elements:

- Risk Governance
- Risk Appetite
- Risk Management Tools
- Risk Identification and Assessment
- Risk Culture

Risk Governance - The Group has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized risk management group that is independent of the business lines. Decision-making is highly centralized through a number of senior and executive risk management committees.

Risk Appetite - The Group's Risk Appetite Framework (RAF) articulates the amounts and types of risk the Group is willing to take in order to meet its strategic objectives. The RAF consists of the identification of risk capacity, a risk appetite statement and risk appetite measures. Together, the application of these components help to ensure the Group stays within appropriate risk boundaries, finds an optimal balance between risk and return and assists in nurturing a healthy risk culture.

Risk Management Tools - Effective risk management includes techniques that are integrated with the Group's strategies and business planning processes. Risk management techniques are regularly reviewed and updated to ensure consistency with risk-taking activities, and relevance to the business and financial strategies of the Group.

Risk Identification & Assessment - Effective risk management requires a comprehensive process to identify risks and assess their materiality. The Group's principal risk types are reviewed regularly to ensure they adequately reflect the Group's risk profile.

Risk Culture - Effective risk management requires a strong, robust, and pervasive risk management culture where every employee is a risk manager and is responsible for managing risks. The Group's risk culture is influenced by numerous factors including the interdependent relationship amongst the Group's risk governance structure, risk appetite, strategy, organizational culture, and risk management tools.

Risks are managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on a quarterly basis on risk exposures and performance against approved limits. Senior management committees meet periodically and provide oversight of the various risks; while the Group's Risk Management Units provide independent oversight of the significant risks of the Group.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Group. Credit risk arises in the Group's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment or other obligations to the Group. Credit risk attracts the largest regulatory capital requirement of all risk areas.

The credit risk strategy defines target markets and risk tolerances that are developed at an all-Group level, and then further refined at the business line level. The objectives of the credit risk strategy are to ensure that for the Group, including the individual business lines:

- target markets and product offerings are well defined,
- the risk parameters for new underwritings and for the portfolios as a whole are clearly specified, and
- transactions, including origination and syndication are managed in a manner to ensure the goals for the overall portfolios are met.

The Group's credit risk rating systems are designed to provide for a meaningful differentiation of risk, and allows for reasonable estimation of loss characteristics at the portfolio and risk grade level. The credit risk rating systems provide consistency in terms of credit adjudication, minimum lending standards by risk ratings, and reporting of credit risk. The Group periodically reassesses its risk rating methodologies and makes enhancements when necessary with emphasis on transparency and replicability to ensure consistency around adjudication.

Individual credit exposures are regularly monitored by the business line units for signs of deterioration. In addition, a review and risk analysis of each borrower is conducted annually, or more frequently for higher-risk borrowers.

The Group's portfolio management methodologies are designed to facilitate consistent underwriting, early identification of problem loans, and timely escalation reporting of high risk exposures. The Group's retail and commercial collections units are organized to support the efficient recovery of late payments and outstanding amounts on credit facilities which are in default. There is ongoing coordination between the Business lines, Collections areas, and Credit Risk Management. The credit risk exposure for the Group is summarized in Note 48 (b).

Market Risk

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, and foreign exchange rates), the correlations among them, and their levels of volatility.

Market risk exposures primarily come from the Group's investment and funding activities, with exposures managed through the Group's asset-liability management processes. Exposures also come from the Group's trading activities; with policies, processes and controls designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility. These activities are primarily customer focused, but also include a proprietary component. In its trading activities, the Group buys and sells currencies, equities and bonds for its customers.

The key exposures arising from these activities are:

Interest Rate Risk - The Group actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Exposures are managed to control the risk of changes in interest rates to income and the economic value of shareholders' equity. Interest rate exposures in individual currencies are also controlled by gap limits.

Interest rate risk exposure is generally based on the earlier of contractual re-pricing or maturity of the Group's assets and liabilities. Certain assets and liabilities without a fixed maturity (such as credit cards and savings deposits) are assigned a maturity profile based on the longevity of the exposure. Further details on the interest rate risk exposure for the Group are summarized in Note 48 (c) (i).

Foreign Currency Risk – This arises from foreign currency operations and is typically mitigated by financing its foreign currency assets with borrowings in the same currencies. The foreign currency risk exposure for the Group is summarized in Note 48 (c) (ii).

Credit Spread Risk – This arises from investment portfolios that the Group holds to meet liquidity and statutory reserve requirements and for investment purposes. Debt investments primarily consist of government and corporate bonds. The majority of these securities are valued using prices obtained from external sources.

Trading activities also result in these exposures and are managed using aggregate VaR and stress testing limits. The quality of the Group's VaR is validated by regular back-testing analysis, in which the VaR is compared to theoretical and actual profit and loss results.

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable the core businesses to continue to generate revenue, even under adverse circumstances.

The key elements of the liquidity risk framework are:

- **Measurement and modeling –** The Group measures and forecasts cash inflows and outflows, including off-balance sheet cash flows by currency on a daily basis; and runs regular stress tests to assess the sufficiency of their stock of core liquid assets under stressed market conditions.

- **Contingency planning –** the Group maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines the governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event.

- **Funding diversification –** the Group actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, and term. Funding source concentrations are regularly monitored and analysed against established limits. The principal sources of funding are capital, core deposits from retail and commercial clients through the branch network, and wholesale funding

- **Core liquidity –** the Group maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events.

Capital Expenditures

Scotia Group has an ongoing programme of capital investment to provide the necessary level of technology and real estate resources to service our customers and meet new product requirements. All major capital expenditures go through a rigorous review and approval process.

Operational Risk

Operational risk is the risk of loss, whether direct or indirect, to which the Group is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk. It exists in some form in every business and function.

The impact of Operational risk may not only result in financial loss, but also regulatory sanctions and damage to the Group's reputation. The Group is very successful at managing operational risk with a view to safeguarding client assets and preserving shareholder value.

The Group has developed policies, processes and assessment methodologies to ensure that operational risk is appropriately identified, measured, reported and managed. The governing principles of the Group's operational risk management programme include but are not limited to the three lines of defence model which ensures proper accountability and clearly defined roles and responsibilities.

Reputational Risk

Reputational risk is the risk that negative publicity regarding Scotiabank's conduct, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Negative publicity and attendant reputational risk frequently arise as a by-product of some other kind of risk management control failure.

Reputational risk is managed and controlled throughout the Group by codes of conduct, governance practices and risk management programmes, policies, procedures and training. Many relevant checks and balances are executed through the Group's well-established compliance programme and operational risk management programme. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Scotiabank Guidelines for Business Conduct, and in a manner that minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public and Corporate Affairs and Compliance departments, are particularly oriented to the management of reputational risk.

Environmental risk

Environmental Risk refers to the possibility that environmental concerns involving Scotiabank or its customers could affect the Bank's financial performance.

The Group has a Board-approved Environmental Policy, which guides day-to-day operations, lending practices, supplier agreements, the management of real estate holdings, and external reporting practices. It is supplemented by specific policies and practices relating to individual business lines.

Strategic Risk

Strategic Risk is the risk that the Bank's business strategies are ineffective, being poorly executed, or insufficiently resilient to changes in the business environment.

The Board of Directors is ultimately responsible for oversight of strategic risk, by adopting a strategic planning process and approving, on an annual basis, a strategic plan for the Group.

The execution and evaluation of strategic plans is a fundamental element of the Group's risk management framework. All employees are responsible for clearly understanding the Group's direction and goals. On an ongoing basis, business lines and control units identify, manage, and assess the internal and external events and risks that could impede achievement of strategic objectives. The Executive Management Team regularly meets to evaluate the effectiveness of the Group's strategic plan, and consider what amendments, if any, are required.

Insurance Risk

Insurance Risk is the risk of potential financial loss due to actual experience being different from that assumed in the pricing process of insurance products.

SJLIC's Board of Directors provides oversight and approval for SJLIC's activities and policies.

Insurance risk identification, measurement and management are controlled by the Insurance Risk Policy and Insurance Risk Management Framework, which define the risk tolerance and set the limits and controls within which SJLIC can operate.

SUPPORTING OUR COMMUNITIES

Supporting Our Communities

Scotiabank and the ScotiaFoundation maintained a strong emphasis on children in 2017 focusing on activities which promoted the protection of the environment, education, and community development. These activities positively impacted some 9,000 children.

The annual National Child Month activities in May, provided unique opportunities to support educational initiatives and address matters concerning children's welfare. ScotiaVolunteers taught in schools on Read Across Jamaica Day and National Teachers' Day; and supported the participation of some 150 students in the inaugural Children's Day Parade organized in collaboration with the National Child Month Committee.

Environment

We built awareness about the importance of protecting the environment through tree planting and beach clean-ups.

ScotiaVolunteers guided over 1,200 students in planting 800 ornamental trees in 242 schools island wide over a two month period. Additionally, on National Labour Day the ScotiaVolunteers planted trees in several communities with the major project being the beautification of the grounds of the National Blood Bank in Kingston.

In August, ScotiaScholars carried out two beach clean-up exercises along the Palisadoes Road Beach which had been adopted by Scotiabank under the Adopt-A-Beach Programme of the National Environment and Planning Agency. In September, 100 of our ScotiaVolunteers joined other volunteers to clean the Hellshire Bay Beach on International Coastal Clean-up Day.

Education

Since its inception in 1999, the ScotiaFoundation Shining Star Scholarships awarded to outstanding performers in the Grade Six Achievement Test (GSAT) has made it easier for 340 children to pursue their secondary education. The Foundation awarded twenty-three scholarships in 2017 and among the recipients were the two top girls and the top boy who all received perfect scores in the GSAT. Other educational initiatives included the sponsorship of the Girls in ICT Hackathon which engaged and exposed girls to Science, Technology, Engineering and Mathematics (STEM) subjects; and Debatemate, an international programme which targets inner city schools and teaches students how to use debating to develop confidence and skills in communication, analysis and conflict resolution.

Community Development

Capacity building and preparation for the working world was the ongoing focus of the GEMS (Girls Empowered for Motherhood and Success) programme, launched four years ago in partnership with Junior Achievement Jamaica and in support of the Women's Centre Foundation. This year, the GEMS Conference facilitated the training of some 300 adolescent mothers in work-readiness skills such as Communication, Conflict Management, Critical Thinking, and Collaboration.

The Foundation continued to respond to social needs in communities across the island. The Salvation Army's annual Christmas Red Kettle Appeal is one of the Scotia Group's longest standing commitments, with support including charitable donations and assistance from volunteers who prepare food packages for the indigent. Over the past year, ScotiaVolunteers also supported the work of other organizations including the Kingston City Run for homeless persons in Kingston; and the CUMI Run for the rehabilitation of mentally ill persons in St. James.

Nurturing Sport Talent

The critical role played by sports in character-building and instilling vital life skills justifies the ongoing investment by the Scotia Group to nurture talent in this sector. Approximately 8,000 boys and girls in 242 primary schools were impacted in the annual Scotia Kiddy Cricket programme in 2017. The programme, now in its 17th year, is aimed at developing the skills of promising young players aged 7-12 years, and promoting greater understanding of the game in the wider community. Consistent with the mandate to increase public support for this sport, special games were organized during the season in high traffic locations such as Devon House and Emancipation Park in Kingston.

Scotiabank also increased its support for football during the year. Sponsorships included The ISSA FLOW Super Cup Football Competition, a 4 week knockout, island wide schoolboy football competition; the JFF/Sports Max Elite League, a parish based football competition, pulling the best footballers from schools and clubs in each parish to compete. In addition, the Portmore United U-13 team was selected to represent Jamaica in the Scotiabank/CONCACAF Under-13 Championships held annually in Mexico City.

Shareholdings

- Scotia Group Jamaica Limited
  As at 31 October 2017

TOTAL SHAREHOLDINGS (UNITS)

DIRECT (UNITS)

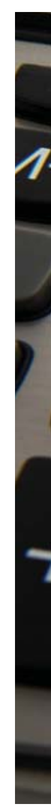
CONNECTED PARTIES (UNITS)

		TOTAL SHAREHOLDINGS (UNITS)
1	SCOTIABANK CARIBBEAN HOLDINGS LIMITED	2,233,403,384
2	SAGICOR POOLED EQUITY FUND	58,992,292
3	NATIONAL INSURANCE FUND	57,924,069
4	SJIML A/C 3119	55,725,439
5	RESOURCE IN MOTION	29,600,000
6	NCB INSURANCE CO. LTD A/C WT109	26,291,176
7	GRACEKENNEDY LIMITED PENSION SCHEME	20,897,463
8	SDBG A/C 560-01	15,357,463
9	JCSD TRUSTEE SERVICES LIMITED- SIGMA OPTIMA	15,220,772
10	SDBG A/C 560-03	13,142,092

Senior Managers & Connected Parties

	TOTAL SHAREHOLDINGS (UNITS)	DIRECT (UNITS)	CONNECTED PARTIES (UNITS)
BRIGHT, ALSTON CARL	144,683	144,683	0
FORBES-PATRICK,YANIQUE	0	0	0
FRASER, RICHARD	0	0	0
HARVEY, VINCENT	13,945	9,045	4,900
HEYWOOD, NADINE	0	0	0
MAIR, HORACE CRAIG	42,082	42,082	0
MCLEGGON, MARCETTE	216,983	216,983	0
MILLER, HUGH G	74,098	74,098	0
MITCHELL, LISSANT	44,500	0	44,500
NELSON, MORRIS	643	643	0
NOEL, DAVID	0	0	0
PILLINER, ROSEMARIE	146,674	74,216	72,458
SHARP, JACQUELINE	252,125	71,125	181,000
STOKES, ADRIAN	0	0	0
SYLVESTER, COURTNEY	373,628	248,864	124,764
THOMPSON-JAMES, JULIE	7,800	0	7,800
TUGWELL-HENRY, AUDREY*	29,996	0	29,996
WHITE, GARY-VAUGHN	96,389	96,389	0
WHITELOCKE, GLADSTONE	162,692	54,000	108,692
WILKIE -CHANNER, SHELEE	118,027	96,979	21,048
WILLIAMS, FREDERICK	181,438	135,285	46,153
WRIGHT, MICHELLE	41,001	41,001	0
WRIGHT, SALIANN	433,857	31,169	402,688

* Appointed Vice President, Retail Banking
Effective September 4, 2017



Directors

	TOTAL SHAREHOLDINGS (UNITS)	DIRECT (UNITS)	CONNECTED PARTIES (UNITS)
ALEXANDER, BARBARA	108,000	108,000	0
CRAWFORD, ERIC *	45,000	45,000	0
HALL, JEFFREY MCGOWAN	40,000	0	40,000
HART, ANTONY MARK	0	0	0
KING, BRENDAN	0	0	0
MAHFOOD, ANDREW	75,208	0	75,208
NOEL, DAVID**	0	0	0
SHARP, JACQUELINE	252,125	71,125	181,000
SMITH, EVELYN	0	0	0

* Appointed, June 8, 2017
** Appointed, September 5, 2017

AUDITED
FINANCIAL STATEMENTS

KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922-6640
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INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scotia Group Jamaica Limited ("the Company") comprising the separate financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 46 to 136 which comprise the Group's and the Company's statements of financial position as at October 31, 2017, the Group's and the Company's statements of revenue and expenses, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at October 31, 2017, and of the Group's and the Company's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of loans

<table>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Loans, after allowances for impairment, represent 34% or $166 billion of the Group's total assets. Allowance for impairment losses of $2.3 billion has been recognised by the Group. The estimation of the impairment allowance on loans on an individual and aggregate basis requires management to make significant judgements to determine whether there is objective evidence that these loans should be classified as impaired arising from repayment default or adverse economic conditions.

[see notes 3(i) and 23 to the financial statements]</td><td>Our procedures in this area included the following:

• Testing controls over the Group's impairment process, such as:
(a) controls over the completeness and accuracy of the data used to determine impaired loans.
(b) management review of the recoverable value calculations.

• Challenging management's identification of impaired loans by reviewing a sample of loans and assessing whether or not they were appropriately classified, based on the criteria for determining objective evidence of impairment.</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

1. Impairment of loans (cont'd)

The key audit matter (cont'd)	*How the matter was addressed in our audit (cont'd)*
Management also makes assumptions in determining the estimated future cash flows from the instruments to determine the impairment allowance. Estimates of expected cash flows require management to use judgement in estimating the values of collateral held, cost to sell the collateral and the time to liquidate such collateral. The combination of estimates and judgements increases the risk that management's estimate could be materially misstated. *[see notes 3(i) and 23 to the financial statements]*	Our procedures in this area included the following (cont'd): • Testing a sample of impairment calculations by assessing the forecasts of expected cash flows and challenging assumptions using externally available information as well as historical trends. • Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to credit risk and measurement of impairment allowances.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

2. Fair value of investments

The key audit matter	*How the matter was addressed in our audit*
Investment securities measured at fair value represent 24% of total assets of the Group. The valuation of the Group's investments requires significant estimation, as no quoted prices are available for some of these instruments. Valuation of these investments, although based on observable inputs, involves the exercise of judgement and the use of assumptions. Management used valuation techniques which require inputs such as market yields obtained from established yield curves. These judgements and assumptions could result in estimated fair values that are materially different from actual transaction values. *[see notes 3(vi), 20, 24 and 49 to the financial statements]*	Our procedures in this area included the following: • Assessing and testing the design and operating effectiveness of the Group's controls over the determination and computation of fair values. • Challenging the reasonableness of yields/prices by comparing to independent third party pricing sources. • Assessing the reasonableness of significant assumptions used by such third-party pricing sources. • Involving our own valuation specialists to determine/obtain yields/prices of specific securities and comparing these to those used by management. • Assessing the adequacy of the disclosures, including the degree of estimation involved in determining fair values.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

3. Valuation of policyholders' liabilities

The key audit matter	*How the matter was addressed in our audit*
Policyholders' liabilities represent 12% of the Group's total liabilities. Determining the settlement value of long-term policyholders' liabilities is an area that requires significant judgment. It involves the use of economic assumptions such as investment returns and discount rates, morbidity and mortality assumptions, maintenance expenses, lapse and withdrawals as key inputs in estimating these actuarially determined liabilities. The combination of assumptions and judgements increases the risk that management's estimate could be materially misstated. *[see notes 2(k), 3(iii) ,38, and 48(e), to the financial statements]*	Our procedures in this area included the following: • Testing the policy master file for completeness and accuracy of the underlying data used by management as inputs to the actuarial valuation. • Testing a sample of contracts to assess that the terms of contract agree to the data file provided by the management to the actuarial expert. • Assessing the objectivity, qualification, and experience of management's actuarial expert. • Involving our own actuarial specialist to assess whether the liabilities as determined by management's actuarial expert, falls within a reasonable range of expectations, the assumptions are appropriate, changes to the product features are confirmed and the actuarial valuation has been performed in accordance with accepted and commonly used actuarial system, methodologies and practices. • Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to insurance risk.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

4. Valuation of retirement benefits asset and obligations

The key audit matter	*How the matter was addressed in our audit*
The Group operates a defined benefit retirement scheme and provides other unfunded retirement benefits. Significant estimates are made in valuing the Group's retirement benefits asset and obligations. The valuations are considered to be a significant risk, as given the size of the assets and liabilities, small changes in the assumptions can have a material financial impact on the Group. The key assumptions involved in calculating retirement benefit assets and liabilities are discount rates, inflation, future increases in salaries and pensions. The use of significant assumptions increases the risk that management's estimate can be materially misstated. *[see notes 3(iv) and 29 to the financial statements]*	Our procedures in this area included the following: • Testing employee data provided by management to the actuarial expert. • Comparing the discount and the inflation rates used to independent sources. • Recomputing interest income and cost associated with retirement benefits. • Reviewing and agreeing the pension asset to independent supporting information. • Assessing whether disclosures in the financial statements are appropriate in respect of the Group's retirement benefit arrangements.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

KPMG

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 44 to 45, forms part of our auditors' report.

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.

The engagement partner on the audit resulting in this independent auditors' report is Nigel R. Chambers.

KPMG

Chartered Accountants
Kingston, Jamaica

December 7, 2017

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Appendix to the Independent Auditors' report

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

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Appendix to the Independent Auditors' report (cont'd)

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Revenue and Expenses
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Net interest income and other revenue			
Net interest income			
Interest from loans and deposits with banks		23,026,816	22,116,030
Interest from securities		7,939,121	8,158,034
Total interest income	6	30,965,937	30,274,064
Interest expense	6	(4,321,834)	(4,898,163)
Net interest income		26,644,103	25,375,901
Impairment losses on loans	23	(2,178,492)	(1,432,420)
Net interest income after impairment losses on loans		24,465,611	23,943,481
Other revenue			
Fee and commission income	7	14,425,825	12,488,592
Fee and commission expense	7	(5,787,463)	(5,472,547)
		8,638,362	7,016,045
Net gains on foreign currency activities	8	2,494,427	3,632,779
Net gains on financial assets	8	1,034,352	344,816
Insurance revenue	9	2,785,032	2,369,309
Other revenue	10	75,015	30,763
Total other revenue		15,027,188	13,393,712
		39,492,799	37,337,193
Expenses			
Salaries, pensions and other staff benefits	11	10,641,141	10,428,959
Property expenses, including depreciation		2,113,257	2,021,790
Amortisation and impairment of intangible assets	28	146,897	127,006
Asset tax		1,068,710	956,448
Other operating expenses		7,321,336	7,162,047
	12	21,291,341	20,696,250
Profit before taxation	13	18,201,458	16,640,943
Taxation	14	(5,794,168)	(5,050,341)
Profit for the year		12,407,290	11,590,602
Attributable to:			
Equity holders of the company		12,174,742	11,300,599
Non-controlling interest		232,548	290,003
Profit for the year		12,407,290	11,590,602
EARNINGS PER STOCK UNIT (expressed in $) **attributable to stockholders of the company**	15	3.91	3.63

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

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Comprehensive income
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Profit for the year		12,407,290	11,590,602
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan asset and obligations	29	6,459,498	(251,970)
Taxation	36	(2,153,166)	83,990
		4,306,332	(167,980)
Items that are or may be reclassified to profit or loss:			
Unrealised gains on available-for-sale financial assets		397,873	989,915
Realised gains on available-for-sale financial assets, transferred to profit		(686,187)	(15,302)
Foreign operations – foreign currency translation		(11,431)	-
		(299,745)	974,613
Taxation	36	9,103	(234,649)
		(290,642)	739,964
Other comprehensive income, net of tax		4,015,690	571,984
Total comprehensive income		16,422,980	12,162,586
Attributable to:			
Stockholders of the company		16,166,559	11,825,603
Non-controlling interest	46	256,421	336,983
Total comprehensive income		16,422,980	12,162,586

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

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Financial Position
October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	16	61,140,777	38,876,946
Government and bank notes other than Jamaican	19	890,257	839,283
Due from other banks	17	20,328,051	35,699,443
Accounts with parent and fellow subsidiaries	18	34,117,474	30,860,816
	19	116,476,559	106,276,488
Financial assets at fair value through profit or loss	20	8,155	554,034
Pledged assets	21	37,253,225	46,591,509
Loans, after allowance for impairment losses	22	166,493,591	166,826,780
Investment securities	24	120,292,580	117,121,153
Government securities purchased under resale agreements	25	1,203,495	820,146
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		12,228,668	10,472,328
Taxation recoverable		2,574,148	2,275,813
Sundry assets	26	2,074,311	2,331,282
Property, plant and equipment	27	5,322,155	5,476,590
Goodwill and intangible assets	28	1,094,143	1,208,425
Retirement benefits asset	29(a)	25,020,925	17,366,400
Deferred taxation	36	176,310	70,706
		48,490,660	39,201,544
Assets held for sale	37	664,416	-
		49,155,076	39,201,544
		490,882,681	477,391,654

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

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Financial Position (continued)
October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
LIABILITIES			
Deposits by the public	30	260,559,467	248,416,381
Due to other banks and financial institutions	31	6,067,077	5,904,813
Due to ultimate parent company	32	3,944,710	5,069,935
Due to fellow subsidiaries	33	156,761	172,086
		270,728,015	259,563,215
Other liabilities			
Cheques and other instruments in transit	19	2,285,240	1,928,340
Acceptances, guarantees and letters of credit		12,228,668	10,472,328
Securities sold under repurchase agreements		20,666,065	31,634,237
Capital management and government securities funds	34	17,844,600	15,352,087
Other liabilities	35	5,648,725	7,509,536
Taxation payable		2,156,254	1,727,158
Deferred tax liabilities	36	7,800,934	5,760,074
Retirement benefit obligations	29(b)	3,884,186	3,191,557
		72,514,672	77,575,317
Liabilities held for sale	37	37,272	-
Policyholders' liabilities	38	45,171,156	44,764,585
EQUITY			
Share capital	39	6,569,810	6,569,810
Reserve fund	40	3,249,976	3,249,976
Retained earnings reserve	41	31,891,770	24,791,770
Capital reserve	42	11,340	11,340
Cumulative remeasurement gains from available-for-sale securities	43	565,980	868,236
Loan loss reserve	44	2,687,050	3,143,875
Other reserves	45	9,964	9,964
Translation reserve		(12,259)	-
Unappropriated profits		57,457,935	53,210,802
Total equity attributable to equity holders of the Company		102,431,566	91,855,773
Non-controlling interest	46	-	3,632,764
Total equity		102,431,566	95,488,537
Total equity and liabilities		490,882,681	477,391,654

The financial statements on pages 46 to 136 were approved for issue by the Board of Directors on December 7, 2017 and signed on its behalf by:

Jeffrey M. Hall — Director

David Noel — Director

Eric Crawford — Director

Richard Fraser — Secretary

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

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Changes in Stockholders' Equity
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

		Attributable to equity holders of the Company											
	Notes	Share capital	Reserve fund	Retained earnings reserve	Capital reserve	Cumulative remeasurement result from available for sale financial assets	Loan loss reserve	Other reserves	Translation reserves	Unappropriated profits	Total	Non controlling interest	Total equity
Balances at October 31, 2015		6,569,810	3,248,591	20,591,770	9,383	175,252	3,204,491	12,892	-	51,445,043	85,257,232	3,470,323	88,727,555
Profit for the year		-	-	-	-	-	-	-	-	11,300,599	11,300,599	290,003	11,590,602
Other comprehensive income:													
Remeasurement of defined benefit plan/obligations		-	-	-	-	-	-	-	-	(167,980)	(167,980)	-	(167,980)
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	-	698,948	-	-	-	-	698,948	49,765	748,713
Realised gains on available-for-sale securities transferred to profit or loss		-	-	-	-	(5,964)	-	-	-	-	(5,964)	(2,785)	(8,749)
Total other comprehensive income		-	-	-	-	692,984	-	-	-	(167,980)	525,004	46,980	571,984
Total comprehensive income		-	-	-	-	692,984	-	-	-	11,132,619	11,825,603	336,983	12,162,586
Transfer to loan loss reserve		-	-	-	-	-	(60,616)	-	-	60,616	-	-	-
Transfer to retained earnings reserve		-	-	4,200,000	-	-	-	-	-	(4,200,000)	-	-	-
Movement in reserves due to the dissolution of subsidiary		-	1,385	-	1,957	-	-	(2,928)	-	-	414	584	998
Transactions with owners of the Company:													
Dividends paid	54	-	-	-	-	-	-	-	-	(5,227,476)	(5,227,476)	(175,126)	(5,402,602)
Net movement for the year		-	1,385	4,200,000	1,957	-	(60,616)	(2,928)	-	(9,366,860)	(5,227,062)	(174,542)	(5,401,604)
Balances at October 31, 2016		6,569,810	3,249,976	24,791,770	11,340	868,236	3,143,875	9,964	-	53,210,802	91,855,773	3,632,764	95,488,537
Profit for the year		-	-	-	-	-	-	-	-	12,174,742	12,174,742	232,548	12,407,290
Other comprehensive income:													
Remeasurement of defined benefit plan/obligations		-	-	-	-	-	-	-	-	4,306,332	4,306,332	-	4,306,332
Foreign currency translation		-	-	-	-	-	-	-	(12,259)	-	(12,259)	828	(11,431)
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	-	278,972	-	-	-	-	278,972	26,204	305,176
Realised gains on available-for-sale securities transferred to profit or loss		-	-	-	-	(581,228)	-	-	-	-	(581,228)	(3,159)	(584,387)
Total other comprehensive income		-	-	-	-	(302,256)	-	-	(12,259)	4,306,332	3,991,817	23,873	4,015,690
Total comprehensive income		-	-	-	-	(302,256)	-	-	(12,259)	16,481,074	16,166,559	256,421	16,422,980
Transfer to loan loss reserve		-	-	-	-	-	(456,825)	-	-	456,825	-	-	-
Transfer to retained earnings reserve		-	-	7,100,000	-	-	-	-	-	(7,100,000)	-	-	-
Transaction costs to acquire non-controlling interest		-	-	-	-	-	-	-	-	(50,222)	(50,222)	-	(50,222)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	60,323	60,323	(3,757,825)	(3,697,502)
Transactions with owners of the Company:													
Dividends paid	54	-	-	-	-	-	-	-	-	(5,600,867)	(5,600,867)	(131,360)	(5,732,227)
Net movement for the year		-	-	7,100,000	-	-	(456,825)	-	-	(12,233,941)	(5,590,766)	(3,889,185)	(9,479,951)
Balances at October 31, 2017		6,569,810	3,249,976	31,891,770	11,340	565,980	2,687,050	9,964	(12,259)	57,457,935	102,431,566	-	102,431,566

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

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Cash Flows
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		12,407,290	11,590,602
Adjustments for:			
Taxation charge	14	5,794,168	5,050,341
Depreciation	27	537,843	511,389
Amortisation of intangible assets	28	146,897	127,006
Impairment allowances on loans	23	3,761,229	2,958,360
Gain on sale of property, plant and equipment	10	(46,460)	-
Gain on sale of available for sale securities		(686,187)	(15,302)
Increase in retirement benefits asset/obligation, net		(400,902)	(387,943)
		21,513,878	19,834,453
Interest income	6	(30,965,937)	(30,274,064)
Interest expense	6	4,321,834	4,898,163
		(5,130,225)	(5,541,448)
Changes in operating assets and liabilities			
Loans		(4,143,757)	(15,254,743)
Deposits by the public		14,639,510	41,571,644
Deposits with Bank of Jamaica maturing after ninety days		(276,266)	1,360,351
Policyholders' liabilities		406,571	1,652,306
Sundry assets, net		256,398	(809,004)
Other liabilities, net		(1,843,301)	2,283,171
Due to parent company and fellow subsidiaries		(1,126,275)	(524,876)
Accounts with parent and fellow subsidiaries		2,134,898	8,601,079
Financial assets at fair value through profit or loss		545,879	290,363
Taxation recoverable		(298,336)	962,970
Retirement benefits asset/obligations		(101,496)	(84,152)
Amounts due to other banks and financial institutions		161,091	633,041
Statutory reserves at Bank of Jamaica		(7,411,913)	(4,317,480)
Securities sold under repurchase agreements		(10,932,603)	(8,132,434)
		(13,119,825)	22,690,788
Interest received		31,279,851	30,302,834
Interest paid		(4,374,416)	(4,931,969)
Taxation paid		(5,562,246)	(4,735,320)
Net cash provided by operating activities (carried forward to page 52)		8,223,364	43,326,333

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

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Cash Flows (continued)
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Cash flows from operating activities			
(brought forward from page 51)		8,223,364	43,326,333
Cash flows from investing activities			
Investment securities		(2,898,389)	(10,707,637)
Pledged assets		8,680,423	6,016,672
Proceeds from disposal of property, plant and equipment		80,306	-
Purchase of property, plant and equipment	27	(426,282)	(650,820)
Intangible assets	28	(32,689)	(116,914)
Acquisition of non-controlling interest		(3,747,724)	-
Net cash provided/(used) in investing activities		1,655,645	(5,458,699)
Cash flows from financing activities			
Dividends paid to stockholders	54	(5,600,867)	(5,227,476)
Dividends paid to non-controlling interest in subsidiary	54	(131,360)	(175,126)
Net cash used in financing activities		(5,732,227)	(5,402,602)
Effect of exchange rate changes on cash and cash equivalents		(407,804)	1,477,649
Net increase in cash and cash equivalents		3,738,978	33,942,681
Cash and cash equivalents at beginning of year		70,297,279	36,354,598
Cash and cash equivalents at end of year	19	74,036,257	70,297,279

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

SCOTIA GROUP JAMAICA LIMITED
Statement of Comprehensive Income
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Net interest income and other revenue			
Interest from deposit with banks		129,705	86,446
Interest from securities		48,027	4,233
	6	177,732	90,679
Net (losses)/gains on foreign currency activities		(83,743)	784,279
Net losses on financial assets	8	(535)	-
Dividend income		5,621,443	2,907,040
		5,537,165	3,691,319
Total income		5,714,897	3,781,998
Expenses			
Asset tax		200	200
Other operating expense		44,273	34,297
	12	44,473	34,497
Profit before taxation	13	5,670,424	3,747,501
Taxation	14	(33,320)	(14,050)
Profit for the year		5,637,104	3,733,451
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Unrealised gains on available-for-sale financial assets		-	1,237
Realised gains on available-for-sale financial assets transferred to profit		(1,237)	-
		(1,237)	1,237
Taxation credit/(charge)	36	309	(309)
Other comprehensive (loss)/income, net of tax		(928)	928
Total comprehensive income for the year		5,636,176	3,734,379

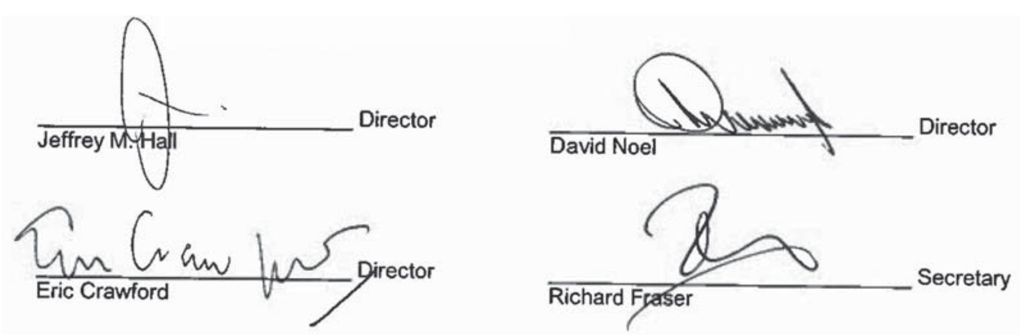
The accompanying notes form an integral part of the financial statements.

SCOTIA GROUP JAMAICA LIMITED
Statement of Financial Position
October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
ASSETS			
Cash resources			
Accounts with subsidiaries	19	7,466,320	9,905,585
Loans to subsidiary	22	180,000	230,000
Investment securities			
Available-for-sale	24	-	1,210,742
Investment in subsidiaries, at cost		13,229,908	9,532,408
Other assets			
Sundry assets		544	-
Taxation recoverable		307,169	297,246
		21,183,941	21,175,981
LIABILITES			
Accrued expenses and other liabilities		8,334	8,809
Taxation payable		36,179	9,662
Deferred tax liabilities	36	3,231	6,400
		47,744	24,871
EQUITY			
Share capital	39	6,569,810	6,569,810
Cumulative remeasurement gains from available-for-sale securities	43	-	928
Unappropriated profits		14,566,387	14,580,372
Total stockholders' equity		21,136,197	21,151,110
Total liabilities and equity		21,183,941	21,175,981

The financial statements on pages 46 to 136 were approved for issue by the Board of Directors on December 7, 2017 and signed on its behalf by:



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

SCOTIA GROUP JAMAICA LIMITED
Statement of Changes in Stockholders' Equity
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	Share capital	Cumulative remeasurement result from available for sale financial assets	Unappropriated profits	Total
Balances at October 31, 2015		6,569,810	-	16,074,397	22,644,207
Profit for the year		-	-	3,733,451	3,733,451
Other comprehensive income:					
Unrealised gains on available for sale securities, net of tax		-	928	-	928
Total comprehensive income		-	928	3,733,451	3,734,379
Transaction with owners:					
Dividends paid	54	-	-	(5,227,476)	(5,227,476)
Balances at October 31, 2016		6,569,810	928	14,580,372	21,151,110
Profit for the year		-	-	5,637,104	5,637,104
Other comprehensive income:					
Realised gains on available for sale securities, net of tax		-	(928)	-	(928)
Total comprehensive income		-	(928)	5,637,104	5,636,176
Transaction costs to acquire non-controlling Interest		-	-	(50,222)	(50,222)
Transaction with owners:					
Dividends paid	54	-	-	(5,600,867)	(5,600,867)
Balances at October 31, 2017		**6,569,810**	**-**	**14,566,387**	**21,136,197**

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

SCOTIA GROUP JAMAICA LIMITED
Statement of Cash Flows
Year ended October 31, 2017

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		5,637,104	3,733,451
Adjustments for:			
Interest income	6	(177,732)	(90,679)
Taxation	14	33,320	14,050
		5,492,692	3,656,822
Changes in operating assets and liabilities			
Loan to subsidiary		50,000	(75,000)
Other assets, net		(10,465)	65,800
Account with fellow subsidiary		(478)	4,099,953
Other liabilities		1,727,089	(1,271)
		7,258,838	7,746,304
Interest received		189,184	73,123
Taxation paid		(9,971)	(69,653)
Net cash provided by operating activities		7,438,051	7,749,774
Cash flow from investing activity			
Acquisition of non-controlling interest	46	(3,747,724)	-
Investment securities		1,199,771	(1,199,460)
Net cash used in investing activities		(2,547,953)	(1,199,460)
Cash flows from financing activity			
Dividends paid, being cash used in financing activity	54	(5,600,867)	(5,227,476)
Net (decrease)/increase in cash and cash equivalents		(710,769)	1,322,838
Cash and cash equivalents at beginning of year		1,885,541	562,703
Cash and cash equivalents at end of year	19	1,174,772	1,885,541

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, Regulation and Licence

Scotia Group Jamaica Limited ("the Company") is incorporated and domiciled in Jamaica. It 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 company's ultimate parent. The registered office of the Company is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston, Jamaica. The Company is listed on the Jamaica Stock Exchange.

The Company is the parent of The Bank of Nova Scotia Jamaica Limited, ("the Bank") which is licensed under the Banking Services Act, 2014, Scotia Investments Jamaica Limited ("SIJL"), which is licensed under the Securities Act, and Scotia Jamaica Microfinance Company Limited.

During the year, Scotia Investments Jamaica Limited (SIJL) initiated a Court application to implement a Scheme of Arrangement by which all shares held by non-controlling interests were cancelled with the payment by Scotia Group Jamaica Limited of J$38 per share, resulting in Scotia Group owning 100% of the remaining shares of SIJL. This was approved at an Extraordinary General Meeting held on August 30, 2017, and was finalised with the Supreme Court's approval in September 2017.

The Company's subsidiaries, which together with the Company are referred to as "the Group", are as follows:

Subsidiaries	Principal Activities	Holding by Company	Holding by Subsidiary	Financial Year-End
The Bank of Nova Scotia Jamaica Limited and its subsidiaries:	Banking	100%		October 31
The Scotia Jamaica Building Society	Mortgage Financing		100%	October 31
Scotia Jamaica Life Insurance Company Limited	Life Insurance		100%	December 31*
Scotia Investments Jamaica Limited and its subsidiaries:	Investment Banking	100% (2016: 77.01%)		October 31
Scotia Asset Management (St. Lucia) Inc	Fund Management		100%	October 31
Scotia Asset Management Jamaica Limited	Non-trading		100%	October 31
Scotia Jamaica Investment Management Limited	Non-trading		100%	October 31
Scotia Jamaica Microfinance Company Limited	Micro-financing	100%		October 31

All subsidiaries are incorporated in Jamaica, except for Scotia Asset Management (St. Lucia) Inc.

*The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2017.

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 determined that none of them had a significant effect on the amounts or disclosures in the financial statements.

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 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 categories 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.

  At the date of transition, the Company is permitted to make a one-time irrevocable reassessment of its fair value through profit or loss designations for its financial assets and liabilities. The Group is currently evaluating the extent to which it will apply these designations to its financial instruments upon transition.

  The expected credit loss model is more forward looking and will require the use of reasonable and supportable forecasts of future economic conditions to determine increases in credit risk and measurement of expected credit losses. It may also result in an increase in the total level of impairment allowance as all financial assets will be assessed for impairment, and the population size will be greater than that for financial assets with objective evidence of impairment under IAS 39.

  The Group is still assessing the impact the change in model will have on its 2019 financial statements.

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 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 are also 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 standard will have on its 2019 financial statements.

- 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 standard will have on its 2020 financial statements.

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 17, *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2021, replaces IFRS 4, *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach. The key principles in IFRS 17 are that an entity:

  - identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future (the insured event) adversely affects the policyholder.
  - separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.
  - recognises and measures groups of insurance contracts at:

    a) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)

    b) an amount representing the unearned profit in the group of contracts (the contractual service margin)
  - recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss making, an entity recognises the loss immediately.
  - presents separately insurance revenue (that excludes the receipt of repayment of investment components) and insurance finance income or expenses;
  - includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.

  Many of the disclosures of IFRS 4 are retained in IFRS 17. The general model requires disclosure and reconciliation of the expected present value of future cash flows, risk adjustment and contractual service margin. No reconciliation is required under the variable fee approach.

  The Group is assessing the impact that the standard will have on its 2022 financial statements.

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 IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, require 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 Group is assessing the impact that this amendment will have on its 2018 financial statements.

- Amendments to IFRS 4, *Insurance Contracts*, provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9, *Financial Instruments* (effective January 1, 2018), and IFRS 4, *Insurance Contracts* (expected to be effective in 2020 or later) as follows:

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 4, *Insurance Contracts, (continued)*

  (i) Temporary exemption from IFRS 9:

  - Rather than having to implement IFRS 9 in 2018, some companies will be permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement.*
  - To qualify, a reporting company's activities need to be predominantly connected with insurance.

  Entities applying the temporary exemption will need to disclose fair value information separately for financial assets that meet the exemption criteria and for all other financial assets.

  (ii) Overlay approach:

  For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

  There are new qualitative and quantitative disclosure requirements to describe how the adjustment is calculated and the effect on the financial statements.

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

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non-refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability.

  An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues or reinsurance contracts held.

  The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

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

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* IFRSs *2014-2016* contain amendments to certain standards applicable to the Group as follows:

  - IFRS 12, *Disclosure of Interests in Other Entities,* effective retrospectively for annual reporting periods beginning on or after January 1, 2017, has been amended to clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

(b) Basis of consolidation

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

Subsidiaries are those entities controlled by the Group. The Group 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 company and its subsidiaries are collectively referred to as “the Group”.

Intra-group transactions, balances and unrealised gains on transactions between group companies 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 Group.

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 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.

2. **Summary of significant accounting policies (continued)**

(b) **Basis of consolidation (continued)**

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.

(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 arms length basis, with inter-segment revenue and costs eliminated on consolidation. 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 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 liability (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, other discounted instruments and amortisation of premiums on instruments bought at a premium.

2. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(i) Interest income (continued)

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 income

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.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees are recognised 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. The related actuarial liabilities are computed when premiums are recognised, 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 and disability claims net of reinsurance recoveries, are recorded in profit or loss.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(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 or loss 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.

(ii) Deferred income 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.

2. Summary of significant accounting policies (continued)

(j) Insurance contracts (continued)

(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 the policyholders' 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 value 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 any changes in the valuation.

(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 38(a)].

(l) Financial assets and liabilities

Financial assets comprise cash resources, financial assets at fair value through profit or loss, securities purchased under resale agreements, pledged assets, loans, investment securities and certain other assets. Financial liabilities comprise deposits, securities sold under repurchase agreements, capital management and government securities funds, assets held in trust on behalf of participants, certain other liabilities and policyholders' liabilities.

2. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

(i) Recognition

The Group initially recognises loans and receivables and deposits on the date at which it becomes a party to the contractual provisions of the instrument, i.e., the date that they are originated. All other financial assets and liabilities (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 the 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 measurement of financial assets subsequent to initial recognition depends upon their classification as set out in note 2(m) below, namely: loans and receivables are measured at amortised cost; held-to-maturity investments are measured at amortised cost; 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.

(m) Financial assets

(i) Classification

The Group classifies its financial assets as 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.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(i) Classification (continued)

(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 measured 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. 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. 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 unrealised gains or losses included in stockholders' equity are transferred to profit or loss.

(ii) Identification and measurement of impairment

At each reporting date, 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.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(ii) Identification and measurement of impairment (continued)

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 the Group 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 advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances 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 as an allowance against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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.

2. Summary of significant accounting policies (continued)

(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 Group in subsidiaries are stated at cost less impairment losses in the separate financial statements.

(p) Repurchase and reverse repurchase agreements

Securities sold under an agreement to repurchase the asset at a fixed price on a future date (repurchase agreements) and securities purchased under an agreement 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 but is segregated as pledged assets. The difference between the sale/purchase and repurchase/resale price is recognised as interest 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, and that, upon initial recognition, the Group designates as at fair value through profit or loss, or as available-for-sale.

Loans 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:

2. Summary of significant accounting policies (continued)

(q) Loans and receivables and allowance for impairment losses (continued)

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 is classified as impaired. On classification as a non-performing loan, any interest that is contractually due but in arrears is reversed from 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 provisions 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 Group's potential liability under acceptances and guarantees is reported as a liability in the statement of financial position. The Group has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

(s) Goodwill and intangible assets

(i) Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on the straight-line basis over their estimated useful lives. The estimated useful lives and amortisation methods are reviewed at each reporting date, with the effect of any changes in estimate being accounted for prospectively.

2. Summary of significant accounting policies (continued)

(s) Goodwill and intangible assets (continued)

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of intangible assets and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(iii) Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

(iv) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. Summary of significant accounting policies (continued)

(s) Goodwill and intangible assets (continued)

(v) Acquired customer relationships

This asset represents the present value of the benefit to the Group from customer lists, contracts, or customer relationships that can be identified separately and measured reliably. Acquired customer relationships include those of SIJL, and stockbroking customer relationships with an estimated useful life of 15 years.

(vi) Contract-based intangible assets

Contract-based intangible assets represent the Group's right to benefit from SIJL's unit trust management contracts. This asset has an indefinite useful life and is therefore tested for impairment annually and whenever there is an indication that the asset may be impaired.

(vii) Licences

The asset represents the value of SIJL's Jamaica Stock Exchange licence to trade shares, which has an indefinite useful life. The asset is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

(viii) Tax shield

The asset represents the present value of saving on tax-free bonds held by SIJL recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefit. The carrying amount of the tax asset is reviewed at each reporting date and reduced to the extent that the benefit is already realised, or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The assets are measured at the tax rate that is expected to apply in the period in which the asset is realised, based on tax rates (and tax laws) that have been enacted at the reporting date.

(ix) Computer software

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

(t) Leases

(i) As lessee

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 future 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.

2. Summary of significant accounting policies (continued)

(t) Leases (continued)

(i) As lessee (continued)

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.

(ii) As lessor

The present value of the lease payments under finance leases is recognised as a receivable. The difference between the gross payments receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

Assets leased out under operating leases are included in property, plant and equipment. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on the straight-line basis over the lease term.

(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 that will 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.

2. Summary of significant accounting policies (continued)

(u) Property, plant and equipment (continued)

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.

(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-employments 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) Pension obligations

The Group operates both a defined benefit and a defined contribution pension plan. The assets of the plans are held in separate trustee-administered funds. The pension plans are funded by contributions from employees and by the relevant Group companies for the Bank and the investment subsidiaries, respectively, taking into account the recommendations of qualified actuaries and based on the rules of the plan. Contributions for the investment subsidiary are charged to the statement of revenue and expenses in the period to which it relates.

The asset or liability in respect of the defined benefit plan is the difference between the present value of the defined benefit 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 changes 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 and pensioners, 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 benefit 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 on post-retirement obligations are recognised in profit or loss.

2. Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(i) Pension obligations (continued)

When the benefits of the plan are changed or if the plan were to be curtailed, the resulting change in benefits 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.

Contributions to the defined contribution plan are charged to the statement of revenue and expenses in the period to which they relate.

(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 services 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 months after the financial year end 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 one 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 profit or loss.

The amount contributed to the ESOP trust (note 55) 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.

2. Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(vi) Defined contribution plan

The Group operates a defined contribution pension plan, the assets of which are held in a trustee administered fund. The pension plan is funded by contributions from employees and the subsidiary, made on the basis provided for in the rules. Contributions are charged to the statement of revenue and expenses in the period to which it relates.

(w) Borrowings

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

(x) Share capital

(i) Classification

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) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(iii) 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) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from these financial statements, as they are not assets or income of the Group.

2. Summary of significant accounting policies (continued)

(z) 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.

(aa) Impairment of non-financial assets

The carrying amounts of the Group's non-financial asset, 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. The recoverable amount of goodwill is estimated at each reporting date.

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 from 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 (group of units) on a *pro rata* basis.

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 recorded, 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.

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

(i) Impairment losses on loans and advances (continued)

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) 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 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.

(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 38.

(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 plans.

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

(iv) Pension and other post-employment benefits (continued)

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-retirement benefit obligations. In determining the appropriate discount rate, the Group considers interest rate 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 liabilities. 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-employment benefit cost and credit are based, in part, on current market conditions.

(v) Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination, involve the utilisation of valuation techniques. These intangibles may be market related, consumer related, contract based or technology based.

For significant amounts of intangibles arising from a business combination, the Group has utilised independent professional advisors to assist management in determining the recognition and measurement of these assets.

(vi) 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, on the basis of a subsequent determination, 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.

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 policyholders and 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 stockholders, pursuant to the 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 six main business segments:

(a) Retail Banking – this incorporates personal banking services, personal deposit accounts, credit and debit cards, consumer loans, mortgages, and microfinance;

(b) Corporate and Commercial Banking – this incorporates non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities;

(c) Treasury – this incorporates the Group's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading activities;

(d) Investment Management Services — this incorporates investments, unit trusts, pension and other fund management, brokerage and advisory services, and the administration of trust accounts;

(e) Insurance Services - this incorporates the provision of life and medical insurance, individual pension administration and annuities;

(f) Other operations of the Group – comprises the parent company and non-trading subsidiaries.

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 items on the statement of financial position, but exclude items such as taxation, retirement benefits asset and obligation and borrowings. Eliminations comprise intercompany transactions and balances.

The Group's operations are located mainly in Jamaica. The operations of subsidiaries located overseas represent less than 10% of the Group's operating revenue and assets.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	The Group 2017							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	19,563,588	7,900,452	5,441,887	3,357,600	5,337,953	69,811	-	41,671,291
Revenue from other segments	(529,433)	2,208,796	(1,971,856)	143,941	107,266	23,644	17,642	-
Total revenues	19,034,155	10,109,248	3,470,031	3,501,541	5,445,219	93,455	17,642	41,671,291
Total expenses and losses	(13,744,386)	(6,525,093)	(556,335)	(1,231,573)	(1,288,681)	(44,473)	(79,292)	(23,469,833)
Profit before tax	5,289,769	3,584,155	2,913,696	2,269,968	4,156,538	48,982	(61,650)	18,201,458
Taxation								(5,794,168)
Profit for the year								**12,407,290**
Segment assets	114,999,461	70,042,301	163,571,362	61,920,634	57,151,482	21,183,941	(25,186,006)	463,683,175
Unallocated assets								27,199,506
Total assets								**490,882,681**
Segment liabilities	151,314,231	140,227,828	-	46,257,134	45,854,991	47,744	(12,400,932)	371,300,996
Unallocated liabilities								17,150,119
Total liabilities								**388,451,115**
Other segment items:								
Capital expenditure	187,619	243,538	-	20,362	7,452	-	-	458,971
Impairment losses on loans	2,049,037	143,263	-	(13,808)	-	-	-	2,178,492
Depreciation and amortisation	362,236	182,814	-	134,526	5,164	-	-	684,740

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	The Group 2016							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	18,745,095	7,037,818	4,129,824	3,479,616	4,527,416	849,844	-	38,769,613
Revenue from other segments	(820,631)	1,116,228	(514,326)	40,262	127,686	76,664	(25,883)	-
Total revenues	17,924,464	8,154,046	3,615,498	3,519,878	4,655,102	926,508	(25,883)	38,769,613
Total expenses and losses	(12,642,108)	(6,034,359)	(476,104)	(1,689,846)	(1,178,757)	(35,073)	(72,423)	(22,128,670)
Profit before tax	5,282,356	2,119,687	3,139,394	1,830,032	3,476,345	891,435	(98,306)	16,640,943
Taxation								(5,050,341)
Profit for the year								**11,590,602**
Segment assets	111,978,753	73,075,303	147,553,375	71,185,461	56,758,368	21,175,981	(24,022,088)	457,705,153
Unallocated assets								19,686,501
Total assets								**477,391,654**
Segment liabilities	143,284,990	136,252,383	913,049	56,239,395	45,360,140	24,872	(14,991,453)	367,083,376
Unallocated liabilities								14,819,741
Total liabilities								**381,903,117**
Other segment items:								
Capital expenditure	474,481	202,270	-	61,279	29,704	-	-	767,734
Impairment losses on loans	1,466,629	(18,959)	-	(15,250)	-	-	-	1,432,420
Depreciation and amortisation	327,206	164,635	-	136,377	10,177	-	-	638,395

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Net interest income

	The Group		The Company	
	2017	2016	2017	2016
Interest income:				
Deposits with banks and other financial institutions	4,221,355	484,017	109,991	65,008
Investment securities	7,859,105	8,142,952	48,027	4,233
Financial assets at fair value through profit or loss	222,566	1,329	-	-
Reverse repurchase agreements	18,554,986	13,753	-	-
Loans and advances	107,925	21,632,013	19,714	21,438
	30,965,937	30,274,064	177,732	90,679
Interest expense:				
Banks and customers	1,546,806	1,792,744	-	-
Repurchase agreements	1,156,862	1,348,077	-	-
Policyholders' liabilities	1,533,751	1,677,680	-	-
Other	84,415	79,662	-	-
	4,321,834	4,898,163	-	-
Net interest income	26,644,103	25,375,901	177,732	90,679

7. Net fee and commission income

	The Group	
	2017	2016
Fee and commission income:		
Retail banking fees	5,193,872	4,602,567
Credit related fees	1,251,766	1,301,595
Commercial and depository fees	6,400,096	5,189,489
Insurance related fees	199,061	168,392
Trust and other fiduciary fees	51,662	52,518
Asset management and related fees	1,329,368	1,174,031
	14,425,825	12,488,592
Fee and commission expenses	(5,787,463)	(5,472,547)
	8,638,362	7,016,045

8. Net gains on foreign currency activities and financial assets

(a) Net gains on foreign currency activities include primarily gains and losses arising from foreign currency trading activities.

(b) Net gains on financial assets:

	The Group		The Company	
	2017	2016	2017	2016
Gains on securities held for trading	342,128	323,722	-	-
Gains/(losses) on available-for-sale investments	401,434	(56,947)	(535)	-
Gains on equities	290,790	78,041	-	-
	1,034,352	344,816	(535)	-

(Expressed in thousands of Jamaican dollars unless otherwise stated)

9. Insurance revenue

	The Group	
	2017	2016
Gross premiums		
Individual life	846,574	789,737
Group life	1,277,062	1,265,152
	2,123,636	2,054,889
Reinsurance ceded	(539)	(1,465)
	2,123,097	2,053,424
Changes in actuarial reserves	661,935	315,885
	2,785,032	2,369,309

10. Other revenue

	The Group	
	2017	2016
Gain on sale of property, plant and equipment	46,460	-
Dividend and other income	28,555	30,763
	75,015	30,763

11. Salaries, pensions and other staff benefits

	The Group	
	2017	2016
Wages and salaries	8,728,330	8,515,190
Statutory payroll contributions	765,964	742,411
Other staff benefits	1,547,749	1,536,281
	11,042,043	10,793,882
Post-employment benefits		
Pension credit on defined benefit plan [note 29(a)(v)]	(850,235)	(809,624)
Pension costs on defined contribution plans	-	23,020
Other post-retirement benefits [note 29(b)(ii)]	449,333	421,681
	(400,902)	(364,923)
Total (note 12)	10,641,141	10,428,959

(Expressed in thousands of Jamaican dollars unless otherwise stated)

12. Expenses by nature

	The Group		The Company	
	2017	2016	2017	2016
Salaries, pension contributions and other staff benefits (note 11)	10,641,141	10,428,959	-	-
Property expenses, including depreciation	2,113,257	2,021,790	-	-
Amortisation and impairment of intangible assets	146,897	127,006	-	-
Systems related expenses	1,301,089	1,613,405	-	-
Insurance claims and benefits	199,686	168,465	-	-
Transportation and communication	1,204,405	998,861	3,659	3,075
Marketing and advertising	668,321	585,371	-	-
Professional, legal and consultancy fees	489,031	543,376	37,592	28,881
Technical and support services	1,737,342	1,463,149	-	-
Deposit insurance	410,412	347,217	-	-
Stationery	385,666	405,121	1,027	2,024
Asset tax	1,068,710	956,448	200	200
Licensing and other regulatory fees	144,613	113,675	-	-
Other operating expenses	780,771	923,407	1,995	317
	21,291,341	20,696,250	44,473	34,497

13. Profit before taxation

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

	The Group		The Company	
	2017	2016	2017	2016
Auditors' remuneration	53,593	54,142	6,914	5,589
Depreciation of property, plant and equipment	537,843	511,389	-	-
Amortisation and impairment of intangible assets	146,897	127,006	-	-
Directors' emoluments:				
Fees	29,946	29,832	14,673	13,649
Management remuneration	57,236	56,637	-	-
Operating lease rentals	451,235	443,090	-	-

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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 Company	
	2017	2016	2017	2016
Current income tax:				
Income tax at 33⅓%	4,519,136	3,600,792	-	-
Income tax at 30%	410,888	491,071	-	-
Income tax 25%	1,071,442	933,259	36,180	9,661
Adjustment for over provision of prior year's charge	-	(11,603)	-	-
Deferred income tax (note 36)	(207,298)	36,822	(2,860)	4,389
	5,794,168	5,050,341	33,320	14,050

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

	The Group		The Company	
	2017	2016	2017	2016
Profit before taxation	18,201,458	16,640,943	5,670,424	3,747,501
Tax calculated at 25%	-	-	1,417,606	936,875
Tax calculated at 33⅓%	6,067,153	5,546,981	-	-
Adjusted for the tax effects of:				
Different tax regimes applicable to the life insurance and mortgage financing subsidiaries and non-regulated entities	(450,120)	(607,428)	-	-
Income not subject to tax	(296,643)	(261,531)	(1,405,361)	(726,760)
Expenses not deductible for tax purposes	491,141	302,909	65	65
Other charges and allowances	(17,363)	81,013	21,010	(196,130)
Prior period over provision	-	(11,603)	-	-
	5,794,168	5,050,341	33,320	14,050
Effective tax rate	31.83%	30.35%	0.59%	0.37%

(Expressed in thousands of Jamaican dollars unless otherwise stated)

15. Earnings per stock unit

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

	2017	2016
Profit for the year attributable to stockholders of the Company	12,174,742	11,300,599
Weighted average number of ordinary stock units in issue ('000)	3,111,573	3,111,573
Earnings per stock unit (expressed in $)	3.91	3.63

16. Cash and balances at Bank of Jamaica

	The Group	
	2017	2016
Statutory reserves – interest bearing	-	314,686
Statutory reserves – non interest bearing	34,506,620	26,780,021
Total statutory reserves (note 19)	34,506,620	27,094,707
Cash in hand and other balances at Bank of Jamaica	26,634,157	11,782,239
	61,140,777	38,876,946

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

Relevant legislation	Entity	Reserve percentage			
		Jamaican		Foreign currency	
		2017	2016	2017	2016
Banking Services Act, Section 14(i)	BNSJ	12%	12%	15%	10%
Building Society Regulations Section 31	SJBS	1%	1%	1%	1%

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

17. Due from other banks

	The Group	
	2017	2016
Items in course of collection from other banks	574,205	747,067
Placements with other banks	19,753,846	34,952,376
	20,328,051	35,699,443

18. Accounts with parent and fellow subsidiaries

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

19. Cash and cash equivalents

	The Group 2017	The Group 2016	The Company 2017	The Company 2016
Cash resources	116,476,559	106,276,488	7,466,320	9,905,585
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 16)	(34,506,620)	(27,094,707)	-	-
Other balances at Bank of Jamaica	(655,915)	(379,649)	-	-
Cheques and other instruments in transit	(2,285,240)	(1,928,340)	-	-
Accounts with parent and fellow subsidiaries greater than ninety days	(6,278,622)	(8,005,723)	(6,278,622)	(8,005,723)
Accrued interest	(42,462)	(36,035)	(12,926)	(14,321)
	72,707,700	68,832,034	1,174,772	1,885,541
Add other cash equivalent balances:				
Repurchase agreements less than ninety days (note 25)	1,200,000	820,000	-	-
Pledged assets less than ninety days (note 21)	128,557	645,245	-	-
	74,036,257	70,297,279	1,174,772	1,885,541
Cash and cash equivalents is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	25,978,241	11,402,590	-	-
Government and bank notes other than Jamaican	890,257	839,283	-	-
Amounts due from other banks	20,328,051	35,699,443	-	-
Accounts with parent and fellow subsidiaries	27,838,853	22,855,093	1,187,698	1,899,862
Repurchase agreements	1,200,000	820,000	-	-
Pledged assets	128,557	645,245	-	-
Accrued interest	(42,462)	(36,035)	(12,926)	(14,321)
	76,321,497	72,225,619	1,174,772	1,885,541
Cheques and other instruments in transit	(2,285,240)	(1,928,340)	-	-
	74,036,257	70,297,279	1,174,772	1,885,541

20. Financial assets at fair value through profit or loss

	The Group 2017	The Group 2016
Government of Jamaica Securities	8,025	200,058
Unit trusts	-	353,976
	8,025	554,034
Accrued interest	130	-
	8,155	554,034

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Pledged assets

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

	The Group	
	2017	2016
Investment securities pledged as collateral for securities sold under repurchase agreements	18,553,635	34,234,338
Capital Management and Government Securities funds	13,397,939	11,466,273
Securities with regulators, clearing houses and other financial institutions	5,301,651	890,898
	37,253,225	46,591,509

Included in pledged assets are the following categories of assets:

	The Group	
	2017	2016
Deposits with financial institutions	5,687,967	4,199,302
Government issued securities:		
Available-for-sale	20,985,867	29,287,728
Held-to-maturity	522,974	3,041,044
Loans	1,313,327	796,209
Unitised funds:		
Available-for-sale	1,707,268	45,394
Other:		
Available-for-sale	7,035,822	9,221,832
	37,253,225	46,591,509

Included in pledged assets are the following amounts, which are regarded as cash equivalents for the purposes of the statement of cash flows:

	The Group	
	2017	2016
Debt securities and other investments with an original maturity of less than ninety days (note 19)	128,557	645,245

(Expressed in thousands of Jamaican dollars unless otherwise stated)

22. Loans, after allowance for impairment losses

	The Group		The Company	
	2017	2016	2017	2016
Business and Government	61,830,726	65,310,804	180,000	230,000
Personal and credit cards	76,378,256	75,201,665	-	-
Residential mortgages	29,582,997	27,131,580	-	-
Interest receivable	1,021,416	1,090,528	-	-
	168,813,395	168,734,577	180,000	230,000
Less: Allowance for impairment losses (note 23)	(2,319,804)	(1,907,797)	-	-
	166,493,591	166,826,780	180,000	230,000

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

	The Group	
	2017	2016
Neither past due nor impaired	149,654,990	147,250,848
Past due but not impaired		
Past due 1-30 days	10,030,423	11,235,416
Past due 31-60 days	2,542,793	2,863,745
Past due 61-90 days	1,050,099	1,914,155
	13,623,315	16,013,316
Impaired:		
Past due more than 90 days	4,513,674	4,379,885
Interest receivable	1,021,416	1,090,528
Gross loan portfolio	168,813,395	168,734,577
Less: Allowance for impairment losses	(2,319,804)	(1,907,797)
Loans, after allowance for impairment losses	166,493,591	166,826,780

There were no financial assets other than those listed above that were individually impaired at the reporting date.

(ii) Repossessed collateral

In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure a 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. Repossessed collateral is not recognised on the Group's statement of financial position.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

23. Impairment losses on loans

	The Group	
	2017	2016
Total impaired loans	4,513,674	4,379,885
Allowance at beginning of year	1,907,797	1,903,120
Provided during the year	3,761,229	2,958,360
Bad debts written off	(3,290,613)	(2,953,683)
Reclassified as held for sale	(58,609)	-
Allowance at end of year (note 22)	2,319,804	1,907,797
Provided during the year	3,761,229	2,958,360
Recoveries of bad debts	(1,582,737)	(1,525,940)
Impairment losses reported in profit for the year	2,178,492	1,432,420

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. As at October 31, 2017, provisions for credit losses are made on all impaired loans. Uncollected interest not accrued on impaired loans is estimated at $2,089,051 (2016: $1,893,910) for the Group.

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

	The Group	
	2017	2016
Allowance based on IFRS - [see (a) below]	2,319,804	1,907,797
Additional allowance based on BOJ regulations [see (b) below]	2,687,050	3,143,875
	5,006,854	5,051,672

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

(b) This represents the additional allowance to meet the Bank of Jamaica loan loss provisioning requirements. A non-distributable loan loss reserve was established to represent the excess of the provision required by BOJ over the IAS 39 requirements (note 44).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

24. Investment securities

	The Group		The Company	
	2017	2016	2017	2016
Available-for-sale (AFS)				
Quoted shares	-	275,706	-	-
Unquoted shares	5,105	5,105	-	-
Government securities	86,146,734	69,949,821	-	1,200,698
Bank of Jamaica securities	2,774,245	7,056,502	-	-
Treasury bills	292,426	2,410,672	-	-
Corporate bonds	28,779,401	29,694,342	-	-
Other	274,669	707,603	-	-
Interest receivable	993,927	931,884	-	10,044
	119,266,507	111,031,635	-	1,210,742
Held-to-Maturity (HTM)				
Government securities	1,023,002	5,911,000	-	-
Interest receivable	3,071	178,518	-	-
	1,026,073	6,089,518	-	-
Total investment securities	120,292,580	117,121,153	-	1,210,742

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of $90,000 (2016: $90,000) which have been deposited by one of the Group'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 debt securities include fixed rate and variable rate instruments. The Group did not reclassify any HTM Securities (measured at amortised cost) to AFS securities (measured at fair value), during the year.

25. Government securities purchased under resale agreements

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

	The Group	
	2017	2016
Reverse repurchase agreements with an original maturity of less than 90 days (note 19)	1,200,000	820,000
Interest receivable	3,495	146
	1,203,495	820,146

The fair value of collateral held pursuant to reverse repurchase agreements is $1,256,993 (2016: $876,084).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

26. Sundry assets

	The Group 2017	The Group 2016
Accounts receivable and prepayments	261,403	321,506
Deferred charges	1,154,298	1,302,031
Other	658,610	707,745
	2,074,311	2,331,282

27. Property, plant and equipment

	The Group				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work- in-Progress	Total
Cost					
October 31, 2015	4,178,613	519,241	5,941,684	232,464	10,872,002
Additions	54,066	8,190	72,235	516,329	650,820
Disposals	-	(35,270)	(6,617)	-	(41,887)
Transfers	65,079	6,101	176,991	(248,171)	-
October 31, 2016	4,297,758	498,262	6,184,293	500,622	11,480,935
Additions	15,892	6,244	41,327	362,819	426,282
Disposals	(56,664)	-	(20,000)	-	(76,664)
Transfers	47,573	9,510	526,352	(583,435)	-
Reclassified as held for sale	-	(3,942)	(17,057)	-	(20,999)
October 31, 2017	4,304,559	510,074	6,714,915	280,006	11,809,554
Accumulated depreciation					
October 31, 2015	652,657	480,517	4,400,832	-	5,534,006
Charge for the year	89,816	23,321	398,252	-	511,389
Eliminated on disposals	-	(35,270)	(5,780)	-	(41,050)
October 31, 2016	742,473	468,568	4,793,304	-	6,004,345
Charge for the year	126,967	7,076	403,800	-	537,843
Eliminated on disposals	(22,818)	-	(20,000)	-	(42,818)
Reclassifed as held for sale	-	(2,181)	(9,790)	-	(11,971)
October 31, 2017	846,622	473,463	5,167,314	-	6,487,399
Net book values					
October 31, 2017	3,457,937	36,611	1,547,601	280,006	5,322,155
October 31, 2016	3,555,285	29,694	1,390,989	500,622	5,476,590
October 31, 2015	3,525,956	38,724	1,540,852	232,464	5,337,996

(Expressed in thousands of Jamaican dollars unless otherwise stated)

28. Goodwill and intangible assets

	The Group						
	Customer relationships	Contract-Based intangibles	License	Tax benefits	Goodwill	Computer software	Total
Cost							
October 31, 2015	1,382,582	348,987	49,470	692,466	136,892	304,722	2,915,119
Additions	-	-	-	-	-	116,914	116,914
Disposals	-	-	-	(692,466)	-	-	(692,466)
October 31, 2016	1,382,582	348,987	49,470	-	136,892	421,636	2,339,567
Additions	-	-	-	-	-	32,689	32,689
Reclassified as held-for-sale	-	-	-	-	-	(74)	(74)
October 31, 2017	1,382,582	348,987	49,470	-	136,892	454,251	2,372,182
Amortisation							
October 31, 2015	760,207	71,574	5,333	692,466	40,229	126,793	1,696,602
Amortisation for the year	88,492	-	-	-	-	38,514	127,006
Eliminated on disposals	-	-	-	(692,466)	-	-	(692,466)
October 31, 2016	848,699	71,574	5,333	-	40,229	165,307	1,131,142
Amortisation for the year	88,492	-	-	-	-	58,405	146,897
October 31, 2017	937,191	71,574	5,333	-	40,229	223,712	1,278,039
Net book values							
October 31, 2017	445,391	277,413	44,137	-	96,663	230,539	1,094,143
October 31, 2016	533,883	277,413	44,137	-	96,663	256,329	1,208,425
October 31, 2015	622,375	277,413	44,137	-	96,663	177,929	1,218,517

29. Retirement benefits asset/obligations

The Group has established a defined benefit 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 benefit pension plan. Amounts recognised in the statement of financial position are as follows:

	The Group	
	2017	2016
Defined benefit pension plan	25,020,925	17,366,400
Other post-retirement benefits	(3,884,186)	(3,191,557)
	21,136,739	14,174,843

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan

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

	The Group 2017	The Group 2016
Present value of funded obligations	(31,928,705)	(27,555,249)
Fair value of plan assets	60,654,296	50,685,637
	28,725,591	23,130,388
Limitation of economic benefit	(3,704,666)	(5,763,988)
Asset in the statement of financial position	25,020,925	17,366,400

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

	The Group 2017	The Group 2016
Balance at beginning of year	17,366,400	16,690,244
Contributions paid	500	500
Pension income recognised in profit or loss (v)	850,235	809,624
Remeasurement recognised in other comprehensive income (vi)	6,803,790	(133,968)
Balance at end of year	25,020,925	17,366,400

(iii) Movement in the present value of obligation

	The Group 2017	The Group 2016
Balance at beginning of year	(27,555,249)	(25,031,046)
Current service costs	(616,756)	(593,951)
Interest cost	(2,430,425)	(2,216,053)
Employees' contribution	(512,709)	(512,313)
Benefits paid	1,442,042	1,186,368
Actuarial gains arising from:		
Experience adjustments	524,968	(388,254)
Changes in financial assumptions	(2,780,576)	-
Balance at end of year	(31,928,705)	(27,555,249)

(iv) Movement in fair value of pension plan assets

	The Group 2017	The Group 2016
Fair value of plan assets at beginning of year	50,685,637	45,447,182
Contributions	513,209	512,813
Benefits paid	(1,442,042)	(1,186,368)
Interest income on plan assets	4,531,433	4,072,336
Administrative fees	(115,258)	(117,378)
Remeasurement gain on plan assets included in other comprehensive income	6,481,317	1,957,052
Fair value of plan assets at end of year	60,654,296	50,685,637

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

(iv) Movement in fair value of pension plan assets (continued)

Plan assets consist of the following:

	The Group 2017	The Group 2016
Government stocks and bonds	36,477,739	34,590,590
Quoted equities	17,811,184	10,093,701
Reverse repurchase agreements	255,389	170,000
Certificate of deposits	929,444	907,630
Real estate	3,034,655	3,041,339
Net current assets	2,145,885	1,882,377
	60,654,296	50,685,637

(v) Components of defined benefit credit recognised in profit and loss for the year

	The Group 2017	The Group 2016
Current service costs	616,756	593,951
Interest cost on obligation	2,430,425	2,216,053
Interest income on plan assets	(4,531,433)	(4,072,336)
Interest on effect of asset ceiling	518,759	335,330
Administrative fees	115,258	117,378
	(850,235)	(809,624)

(vi) Components of defined benefit (credit)/charge recognised in other comprehensive income

	The Group 2017	The Group 2016
Remeasurement of defined benefit obligations	2,255,608	388,254
Remeasurement of plan assets	(6,481,317)	(1,957,052)
Change in effect on asset ceiling	(2,578,081)	1,702,766
	(6,803,790)	133,968

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

(vii) Sensitivity analysis on projected benefit obligation

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarises how the projected benefit obligation measured at the end of the reporting date 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			
	2017		2016	
	1 % Increase	1 % Decrease	1 % Decrease	1% Increase
Discount rate	(4,405,000)	5,634,000	(3,694,000)	4,699,000
Future pension increases	3,275,000	(2,763,000)	2,638,000	(2,238,000)
Future salary increases	1,567,000	(1,377,000)	1,368,000	(1,203,000)

(viii) Liability duration

The average liability duration is as follows

	The Group	
	2017	2016
Active members and all participants (years)	16.3	15.8

(ix) The estimated pension contributions to be paid into the defined benefit and contribution plans during the next financial year is $500 (2016: $500).

(x) The principal actuarial assumptions used were as follows

	The Group	
	2017	2016
Discount rate	9.00%	9.00%
Future salary increases	6.50%	6.00%
Future pension increases	5.00%	4.25%

(xi) Principal actuarial assumptions

In addition to the assumptions used for the pension plan that are relevant to the group health plan, the estimate assumes a long-term increase in health costs of 6.50% per year (2016: 5.50%).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

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

(i) Movement in the present value of unfunded obligations

	The Group	
	2017	2016
Balance at beginning of year	(3,191,557)	(2,735,526)
Current service costs	(166,496)	(148,563)
Interest cost	(282,837)	(243,454)
Benefits paid	100,996	83,652
Past service costs	-	(29,664)
Actuarial gains arising from:		
Experience adjustments	252,281	64,833
Changes in financial assumptions	(572,490)	(182,835)
Changes in demographic assumptions	(24,083)	-
Balance at end of year	(3,884,186)	(3,191,557)

(ii) Components of benefit costs recognised in the statement of revenue and expenses

	The Group	
	2017	2016
Current service costs	166,496	148,563
Interest on obligation	282,837	243,454
Past service costs	-	29,664
	449,333	421,681

(iii) Charge recognised in other comprehensive income

	The Group	
	2017	2016
Experience adjustments	(252,281)	(64,833)
Changes in financial and demographic assumptions	596,573	182,835
	344,292	118,002

(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 6.5% (2016:5.5%) per year.

(v) Sensitivity analysis on projected benefits obligation

The calculation of the projected benefit 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

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

(v) Sensitivity analysis on projected benefits obligation (continued)

	The Group			
	2017		2016	
	1 % Increase	1 % Decrease	1 % Increase	1% Decrease
Discount rate	(604,000)	784,000	(470,000)	604,000
Future pension increases	724,000	(567,000)	552,000	(436,000)
Future salary increases	12,000	(11,000)	12,000	(11,000)

(vi) Liability duration

The average liability duration is as follows:

	The Group	
	2017	2016
Active members and all participants (years)	18.5	17.5

30. Deposits by the public

	The Group	
	2017	2016
Personal	138,202,024	130,920,312
Business	122,251,924	117,384,936
Interest payable	105,519	111,133
	260,559,467	248,416,381

Deposits include $16,323 (2016: $NIL) held as collateral for irrevocable commitments under letters of credit.

31. Due to other banks and financial institutions

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

32. Due to ultimate parent company

	The Group	
	2017	2016
The Bank of Nova Scotia:		
Facility I	1,636,039	2,216,137
Facility II	2,246,127	2,789,001
	3,882,166	5,005,138
Interest payable	48,913	62,988
	3,931,079	5,068,126
Deposits held with Bank	13,631	1,809
	3,944,710	5,069,935

(Expressed in thousands of Jamaican dollars unless otherwise stated)

32. Due to ultimate parent company (continued)

(i) Facility I is a USD denominated twelve (12) year non-revolving loan from the ultimate parent company, for on-lending. The repayment of the principal commenced May 2012, after a four year moratorium period, to be completed by August 2020 and is subject to a fixed interest rate of 5.63% per annum.

(ii) Facility II is a USD denominated fourteen (14) year non-revolving loan from the ultimate parent company, for on-lending. The repayment of the principal commenced May 2012, after a four year moratorium period, to be completed by February 2022 and is subject to a fixed interest rate of 5.95%.

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

33. Due to fellow subsidiaries

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

34. Capital Management and Government Securities funds

The capital management and government securities funds represent the investment of contributions from third-party clients. Changes in the value of the funds at each valuation date are based on the net accretion in value of the underlying investments.

35. Other liabilities

	The Group	
	2017	2016
Accrued staff benefits	1,676,481	1,577,102
Prepaid letters of credit	27,712	-
Provisions	475,361	519,493
Accrued liabilities	3,469,171	5,412,941
	5,648,725	7,509,536

36. Deferred tax assets and liabilities

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using applicable tax rates of:

- Scotia Group Jamaica Limited at 25%;
- The Bank of Nova Scotia Jamaica Limited at 33⅓%;
- Scotia Investments Jamaica Limited at 33⅓%;
- The Scotia Jamaica Building Society at 30%;
- Scotia Jamaica Life Insurance Company Limited at 25% and;
- Other unregulated subsidiaries at 25%

(Expressed in thousands of Jamaican dollars unless otherwise stated)

36. Deferred tax assets and liabilities (continued)

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

	The Group		The Company	
	2017	2016	2017	2016
Balance at beginning of year	(5,689,368)	(5,501,887)	(6,400)	(1,702)
Recognised in the profit for the year (note 14)	207,298	(36,822)	2,860	(4,389)
Recognised in other comprehensive income				
Remeasurement of defined benefits asset/ obligations	(2,153,166)	83,990	-	-
Available-for-sale investments				
- fair value remeasurement	(92,697)	(239,008)	-	(309)
- transfer to profit	101,800	4,359	309	-
	(2,144,063)	(150,659)	309	(309)
Reclassified as held for sale	1,509	-	-	-
Balances at end of year	(7,624,624)	(5,689,368)	(3,231)	(6,400)

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

	The Group		The Company	
	2017	2016	2017	2016
Pension benefits	(8,342,340)	(5,790,831)	-	-
Other post retirement benefits	1,295,162	1,063,852	-	-
Available-for-sale investments	(231,135)	(240,238)	-	(309)
Vacation accrued	133,060	127,327	-	-
Accelerated tax depreciation	(79,012)	(126,914)	-	-
Impairment losses on loans	(385,480)	(533,184)	-	-
Interest receivable	(211,803)	(282,407)	(3,231)	(6,091)
Unrealised premiums/(discount) on AFS securities	176,498	113,211	-	-
Other	20,426	(20,184)	-	-
Net deferred income tax liability	(7,624,624)	(5,689,368)	(3,231)	(6,400)

	The Group		The Company	
	2017	2016	2017	2016
This is comprised of:-				
Deferred income tax asset	176,310	70,706	-	-
Deferred income tax liability	(7,800,934)	(5,760,074)	(3,231)	(6,400)
	(7,624,624)	(5,689,368)	(3,231)	(6,400)

(c) The deferred tax charge recognised in profit for the year relates to the following temporary differences:

	The Group		The Company	
	2017	2016	2017	2016
Accelerated tax depreciation	(47,902)	(53,384)	-	-
Pensions and other post retirement benefits	167,033	157,365	-	-
Allowance for loan impairment	(147,704)	(32,935)	-	-
Vacation accrued	(5,733)	(13,243)	-	-
Interest receivable	(70,604)	17,463	(2,860)	4,389
Unrealised premiums/(discount) on AFS securities	(63,287)	(59,609)	-	-
Other	(39,101)	21,165	-	-
	(207,298)	36,822	(2,860)	4,389

(Expressed in thousands of Jamaican dollars unless otherwise stated)

37. Assets and liabilities held for sale

At the reporting date, the Board of Directors had approved a plan to sell the shares of Scotia Jamaica Microfinance Company Limited. The transaction closed after the financial year end (see note 56). Consequently, the assets and liabilities of that subsidiary have been presented as held for sale.

	The Group 2017
(i) Assets classified as held for sale:	
Cash resources	7
Loans, after allowance for impairment	646,605
Deferred tax assets	8,129
Property, plant and equipment	9,028
Other assets	647
	664,416
(ii) Liabilities classified as held for sale:	
Accrued charges	5,544
Accounts payables	11,966
Taxation payable	19,762
	37,272

38. Policyholders' liabilities

(a) Composition of policyholders' liabilities

	The Group 2017	The Group 2016
Policyholders' fund	50,861,291	49,956,739
Benefits and claims payable	188,801	170,182
Unprocessed premiums	14,902	(9,427)
Annuity fund	493,549	374,283
Insurance risk reserve - Individual life	(7,137,546)	(6,607,512)
- Individual accident and sickness	242,782	333,780
- Universal life	(72,821)	(48,075)
- Whole life	61,988	24,743
- Group life	518,210	569,872
	45,171,156	44,764,585

(b) Movement in policyholders' liabilities:

	The Group 2017	The Group 2016
Policyholders' fund:		
At beginning of year	49,956,739	48,106,599
Gross premium	5,276,527	5,872,835
Disbursements	(5,905,726)	(5,700,375)
Interest credited	1,533,751	1,677,680
At end of year	50,861,291	49,956,739

(Expressed in thousands of Jamaican dollars unless otherwise stated)

38. Policyholders' liabilities (continued)

	The Group 2017	The Group 2016
Benefits and claims payable:		
At beginning of year	170,182	197,069
New claims and benefits made during the year	218,305	141,578
Benefits and claims paid	(199,686)	(168,465)
At end of year	188,801	170,182
Unprocessed premiums:		
At beginning of year	(9,427)	19,445
Premiums received	7,564,968	8,113,102
Premiums applied	(7,540,639)	(8,141,974)
At end of year	14,902	(9,427)
Annuity fund:		
At beginning of year	374,283	199,953
Issue of new annuities	133,172	182,290
Payments	(30,986)	(21,487)
Interest credited	17,080	13,527
At end of year	493,549	374,283

	The Group		
	2017		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(6,297,064)	569,872	(5,727,192)
Changes in assumptions	(596,765)	(45,101)	(641,866)
Normal changes	(11,768)	(6,561)	(18,329)
At end of year	(6,905,597)	518,210	(6,387,387)

	2016		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(5,988,297)	577,510	(5,410,787)
Changes in assumptions	(334,725)	(4,493)	(339,218)
Normal changes	25,958	(3,145)	22,813
At end of year	(6,297,064)	569,872	(5,727,192)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

39. Share capital

	Number of Units ('000) 2017	2016	Carrying value 2017	2016
Authorised:				
Ordinary shares of no par value	10,000,000	10,000,000		
Issued and fully paid:				
Ordinary stock units	3,111,573	3,111,573	6,569,810	6,569,810

The holders of the ordinary stock units are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

40. 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% net profit, until the amount in the fund is equal to 50% of the paid-up capital of the Bank and thereafter, 10% of 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 amount paid up on its capital shares and the amount of its deferred shares.

41. 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.

42. Capital reserve

Capital reserve arose on the liquidation of Scotia Jamaica General Insurance Brokers Limited.

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

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

44. Loan loss reserve

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

45. Other reserves

This represents reserves arising on consolidation of subsidiaries.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

46. Non-controlling interest

Effective September 29, 2017, the Group's equity shares in SIJL increased from 77.01% to 100% and SIJL became a wholly owned subsidiary of Scotia Group Jamaica Limited (see note 1). Accordingly, the revenue, expenses and cash flows relating to SIJL for 2017 is for the period November 1, 2016 to September 30, 2017.

	The Group	
	2017	2016
Share of non-controlling interest	0%	22.99%
Statement of financial position as at October 31		
Total assets	61,920,633	71,185,461
Total liabilities	(46,257,132)	(56,239,395)
Net assets	15,663,501	14,946,066
Carrying amount of non-controlling interest	-	3,632,764
Statement of revenue and expenses for the year		
Total operating income	2,972,524	3,535,128
Profit for the year	1,092,567	1,349,927
Other comprehensive income	103,844	204,348
Total comprehensive income	1,196,411	1,554,275
Profit allocated to non-controlling interest	232,548	290,003
Other comprehensive income allocated to non-controlling interest	23,873	46,980
	256,421	336,983
Statement of cash flows		
Cash flows from operating activities	391,257	581,737
Cash flows from investing activities	(176,015)	114,790
Cash flows from financing activities	(131,360)	(175,126)
Net increase in cash and equivalents	83,882	521,401
Dividends paid to non-controlling interest	131,360	175,126

47. Related party transactions and balances

The Group 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. The remaining 28.22% of the stock units are widely held.

Parties are considered to be related if one party has the ability to control or exercise significant influence over, or be controlled or significantly influenced by the other party, or both parties are subject to common control or significant influence. A number of banking transactions are entered into with related parties, 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

47. Related party transactions and balances (continued)

Related party transactions with the parent company include the payment of dividends. 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 as set out in note 32. No impairment losses have been recognised in respect of loans made to related parties.

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 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 2017	Total 2016
Loans						
Balance at October 31	-	-	603,474	2,606,449	3,209,923	2,910,227
Interest income earned	-	-	43,609	264,610	308,219	164,827
Deposit liabilities						
Balance at October 31	3,882,166	-	319,326	2,225,854	6,427,346	8,829,129
Interest expense on deposits	254,140	-	622	11,757	266,519	554,694
Investments/Repurchase agreements						
Securities sold under repurchase agreements	-	-	(166,952)	(710,277)	(877,229)	(142,352)
Interest paid on repurchase agreements	-	-	(249)	(24,979)	(25,228)	(2,883)
Other investments	-	274,669	(112,826)	(16,434)	145,409	620,584
Interest paid on other investments	-	-	(50)	(41)	(91)	(96)
Deposits with Banks						
Due from banks and other financial institutions	623,774	39,139,405	-	-	39,763,179	35,031,571
Interest earned from banks and other financial institutions	170	368,748	-	-	368,918	159,099
Other						
Gain on redemption of Units in Mutual Fund	-	413,433	-	-	413,433	-
Fees and commission earned	-	-	1,345	15,313	16,658	12,274
Insurance products	-	-	12,803	-	12,803	21,148
Technical fees paid	(1,110,960)	-	-	-	(1,110,960)	(1,193,899)
Other operating (expense) /income, net	(978,768)	(236,675)	-	-	(1,215,443)	(667,806)

	The Group 2017	The Group 2016
Key management compensation		
Salaries and other short term benefits	905,838	883,450
Post-employment benefits	56,353	(104,068)
	962,191	779,382

48. 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 includes the following:

- extensive risk management policies define the Group's risk appetite, set the limits and controls within which the Group operates, 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.

48. Financial risk management (continued)

(a) Overview and risk management framework (continued)

(iii) Asset and Liability Committee

The Asset and Liability Committee (ALCO), a management committee, 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 groups 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.

In addition, the Group seeks additional collateral from a counterparty as soon as impairment indicators are observed for the relevant individual 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 the 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.

48. 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 issue 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 borrowing.

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 with externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

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

- Excellent
- Good
- Higher Risk

The following table 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:

	The Group Loans and credit commitments	
	2017 (%)	2016 (%)
Excellent	26.0	26.6
Very Good	3.1	4.0
Good	26.2	24.4
Acceptable	10.9	9.3
Higher Risk	33.8	35.7
	100.0	100.0

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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

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

	The Group	
	2017	2016
	%	%
Standard	87.1	88.7
Special Mention	10.3	8.6
Sub-Standard	1.3	1.3
Doubtful	0.4	0.3
Loss	0.9	1.1
	100.0	100.0

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:

	The Group		The Company	
	2017	2016	2017	2016
AAA to AA+	5,447,147	8,144,386	-	-
AA to A+	16,343,308	18,100,779	-	-
A to A-	8,183,145	10,445,859	-	-
BBB+ to BB+	4,562,505	5,188,203	-	-
BB to B-	132,562,360	119,508,029	-	1,210,742
Lower than B-	1,490,822	-	-	-
Unrated	949,325	-	-	-
	169,538,612	161,387,256	-	1,210,742

	The Group		The Company	
	2017	2016	2017	2016
Classified as follows:				
Deposits with Bank of Jamaica	20,972,988	7,390,719	-	-
Financial assets at fair value through profit and loss	8,155	200,058	-	-
Investment securities				
Held-to-maturity	1,026,073	6,089,518	-	-
Available-for-sale	118,986,733	110,043,221	-	1,210,742
Pledged Assets:				
Held-to-maturity	522,974	3,041,044	-	-
Available-for-sale	28,021,689	34,622,696	-	-
	169,538,612	161,387,256	-	1,210,742

48. Financial risk management (continued)

(b) Credit risk (continued)

(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 their cash flow resources, rather than rely on the value of security offered as collateral. Nevertheless, the collateral is an important mitigant of credit risk. 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 amount 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 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 and equities. Estimates of fair values are based on the value of collateral assessed at the time of borrowing and are generally not updated except when credits to borrowers are individually assessed as impaired.

The estimated fair value of the collateral with enforceable legal right pursuant to the agreements for outstanding loans and guarantees is $130,840,191 (2016: $128,575,911) for the Group.

(v) Concentration of exposure to credit risk

(1) Loans and customer liabilities under acceptances, 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 the industry sectors. These credit facilities are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk (continued)

(1) Loans and customer liabilities under acceptances, guarantees and letters of credit (continued)

	The Group			
	Loans and leases	Acceptances, guarantees and letters of credit	Total 2017	Total 2016
Agriculture, fishing and mining	992,944	352,692	1,345,636	1,296,319
Construction and real estate	2,767,230	443,083	3,210,313	3,116,648
Distribution	13,574,564	1,423,654	14,998,218	15,080,002
Financial institutions	3,676,555	1,126,875	4,803,430	4,197,356
Government and public entities	13,651,326	1,315,438	14,966,764	18,887,740
Manufacturing	6,323,308	252,111	6,575,419	6,749,573
Transportation, electricity, water and other	5,555,673	921,818	6,477,491	6,376,629
Personal	105,938,566	4,857,287	110,795,853	106,936,688
Professional and other services	7,786,072	1,398,055	9,184,127	9,373,977
Tourism and entertainment	7,525,702	137,655	7,663,357	6,101,445
Interest receivable	1,021,455	-	1,021,455	1,090,528
Total	168,813,395	12,228,668	181,042,063	179,206,905
Total impairment allowance (note 23)			(2,319,804)	(1,907,797)
			178,722,259	177,299,108

(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, categorised by issuer:

	The Group		The Company	
	2017	2016	2017	2016
Government of Jamaica	109,213,160	106,603,177	-	1,210,742
Bank of Jamaica	57,244,010	42,151,725	-	-
Financial institutions	61,336,988	76,341,158	7,466,320	9,905,585
Corporates and other	35,958,973	39,468,555	-	-
	263,753,131	264,564,615	7,466,320	11,116,327

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.

48. Financial risk management (continued)

(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 Bank's market risk exposures and the activities that give rise to these exposures.

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, currency and other price 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

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

	The Group						
	2017						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	22,864,413	40,915,937	6,934,538	-	-	45,761,671	116,476,559
Financial assets at fair value through profit or loss	-	-	-	-	8,155	-	8,155
Pledged assets	491,592	19,169,857	6,594,293	6,194,403	2,864,573	1,938,507	37,253,225
Loans (1)	46,986,055	50,478,092	19,309,163	44,290,731	3,699,441	1,730,109	166,493,591
Investment securities (2)	-	71,171,295	10,950,992	27,657,876	9,194,847	1,317,570	120,292,580
Securities purchased under resale agreements	180,000	1,020,000	-	-	-	3,495	1,203,495
Other assets	-	-	-	-	-	49,155,076	49,155,076
Total assets	70,522,060	182,755,181	43,788,986	78,143,010	15,767,016	99,906,428	490,882,681
Deposits, due to banks, parent company and fellow subsidiaries (3)	246,226,668	10,186,011	8,601,374	5,550,924	9,478	153,560	270,728,015
Securities sold under repurchase agreements	591,662	17,414,855	2,551,443	-	-	108,105	20,666,065
Capital Management and Government Securities funds	17,841,691	-	-	-	-	2,909	17,844,600
Policyholders' liabilities	37,665,567	3,099,633	10,793,342	-	-	(6,387,386)	45,171,156
Other liabilities	-	-	-	-	-	34,041,279	34,041,279
Stockholders' equity	-	-	-	-	-	102,431,566	102,431,566
Total liabilities and stockholders' equity	302,325,588	30,700,499	21,946,159	5,550,924	9,478	130,350,033	490,882,681
Total interest rate sensitivity gap	(231,803,528)	152,054,682	21,842,827	72,592,086	15,757,538	(30,443,605)	-
Cumulative gap	(231,803,528)	(79,748,846)	(57,906,019)	14,686,067	30,443,605	-	-
	2016						
Total assets	26,604,551	206,006,583	58,177,400	89,628,239	15,583,490	81,391,391	477,391,654
Total liabilities and stockholders' equity	286,445,312	41,005,891	22,086,968	5,770,600	307,805	121,775,078	477,391,654
Total interest rate sensitivity gap	(259,840,761)	165,000,692	36,090,432	83,857,639	15,275,685	(40,383,687)	-
Cumulative gap	(259,840,761)	(94,840,069)	(58,749,637)	25,108,002	40,383,687	-	-

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. 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 2017					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	2.65	1.36	1.93	-	-	1.83
Securities purchased under repurchase agreements	2.50	5.74	-	-	-	5.25
Financial assets at fair value through profit or loss	-	-	-	-	5.75	5.75
Loans (1)	10.26	19.30	11.56	12.09	7.53	13.62
Investment securities (2)	-	5.20	3.95	5.12	9.43	5.44
Pledged assets	4.46	5.52	2.00	4.55	8.33	4.90
LIABILITIES						
Deposits (3)	0.36	1.58	2.12	5.12	7.00	0.56
Securities sold under repurchase agreements	3.72	2.95	2.86	-	-	2.96
Capital Management and Government Securities funds	0.09	-	-	-	-	0.09
Policyholders' liabilities	2.70	3.93	3.10	-	-	2.51

	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	0.99	1.27	-	-	1.05
Securities purchased under repurchase agreements	6.50	-	-	-	-	6.50
Financial assets at fair value through profit or loss	-	-	-	7.14	-	7.14
Loans (1)	14.25	17.01	11.90	13.72	9.36	14.77
Investment securities (2)	-	5.58	5.16	4.27	9.37	5.29
Pledged assets	12.75	5.88	4.21	3.74	9.63	5.26
LIABILITIES						
Deposits (3)	0.59	1.47	2.81	4.97	6.12	0.79
Securities sold under repurchase agreements	4.78	3.93	1.88	-	-	3.79
Capital Management and Government Securities funds	0.10	-	-	-	-	0.10
Policyholders' liabilities	3.07	3.94	3.99	-	-	3.34

(1) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

(2) 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.

(3) Yields are based on contractual interest rates.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	The Company						
	2017						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,174,773	-	6,278,621	-	-	12,926	7,466,320
Loans (1)	-	22,500	64,167	93,333	-	-	180,000
Investment in subsidiaries	-	-	-	-	-	13,229,908	13,229,908
Other assets	-	-	-	-	-	307,713	307,713
Total assets	1,174,773	22,500	6,342,788	93,333	-	13,550,547	21,183,941
Other liabilities	-	-	-	-	-	47,744	47,744
Stockholders' equity	-	-	-	-	-	21,136,197	21,136,197
Total liabilities and stockholders' equity	-	-	-	-	-	21,183,941	21,183,941
Total interest rate sensitivity gap	1,174,773	22,500	6,342,788	93,333	-	(7,633,394)	-
Cumulative gap	1,174,773	1,197,273	7,540,061	7,633,394	7,633,394	-	-
	2016						
Total assets	1,885,541	22,500	9,273,921	140,000	-	9,854,019	21,175,981
Total liabilities and stockholders' equity	-	-	-	-	-	21,175,981	21,175,981
Total interest rate sensitivity gap	1,885,541	22,500	9,273,921	140,000	-	(11,321,962)	-
Cumulative gap	1,885,541	1,908,041	11,181,962	11,321,962	11,321,962	-	-

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

	The Company					
	2017					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	-	-	1.33	-	-	1.12
Loans (1)	-	8.75	8.75	8.75	-	8.75
	2016					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	0.41	-	1.15	-	-	1.01
Investments (2)	-	-	5.59	-	-	5.59
Loans (1)	-	8.75	8.75	8.75	-	8.75

(1) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

(2) 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.

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 for 2016.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity to interest rate movements (continued)

	The Group	
	2017	2016
	Increase/decrease	Increase/decrease
JMD Interest rates	by 175 bps	by 200bps
USD Interest rates	by 100 bps	by 75bps

	The Group		The Company	
	2017	2016	2017	2016
Effect on profit or loss	1,343,043	1,236,941	41,857	155,177
Effect on stockholders' equity	3,999,134	3,308,414	20,326	27,280

(ii) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing 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 Group's exposure to relevant currencies:

JMD Equivalent

	The Group						
	2017						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	45,597,804	61,761,705	3,288,167	5,155,234	533,790	139,859	116,476,559
Financial assets at fair value through profit or loss	-	8,155	-	-	-	-	8,155
Pledged assets	24,457,875	12,795,479	-	(129)	-	-	37,253,225
Loans	143,721,902	22,691,291	80,389	6	3	-	166,493,591
Investment securities	88,052,212	31,947,942	292,426	-	-	-	120,292,580
Government securities	1,203,495	-	-	-	-	-	1,203,495
Other assets	43,537,603	5,467,522	16,887	1,904	131,160	-	49,155,076
	346,570,891	134,672,094	3,677,869	5,157,015	664,953	139,859	490,882,681
LIABILITIES							
Deposits	161,586,294	100,536,218	3,268,153	4,837,603	499,353	394	270,728,015
Other liabilities	27,468,842	6,282,083	85,473	23,908	125,960	55,013	34,041,279
Policy holders' liabilities	45,171,156	-	-	-	-	-	45,171,156
Securities sold under repurchase agreements	13,238,828	7,427,237	-	-	-	-	20,666,065
Capital Management and Government Securities Funds	2,654,889	13,861,573	259,412	946,682	122,044	-	17,844,600
	250,120,009	128,107,111	3,613,038	5,808,193	747,357	55,407	388,451,115
NET POSITION	**96,450,882**	**6,564,983**	**64,831**	**(651,178)**	**(82,404)**	**84,452**	**102,431,566**

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

JMD Equivalent

	The Group 2016						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	29,871,536	67,247,244	3,221,826	5,299,232	542,678	93,972	106,276,488
Financial assets at fair value through profit or loss	554,034	-	-	-	-	-	554,034
Pledged assets	30,318,978	15,999,829	86,122	186,580	-	-	46,591,509
Loans	140,736,006	26,047,672	22,920	4	20,178	-	166,826,780
Investment securities	81,368,754	35,471,241	281,158	-	-	-	117,121,153
Government securities	820,146	-	-	-	-	-	820,146
Other assets	34,398,382	4,669,110	27,944	(257)	106,365	-	39,201,544
	318,067,836	149,435,096	3,639,970	5,485,559	669,221	93,972	477,391,654
LIABILITIES							
Deposits	140,765,710	110,267,093	3,034,715	5,086,310	408,975	412	259,563,215
Other liabilities	24,022,583	6,176,924	89,710	54,690	236,052	9,034	30,588,993
Policy holders' liabilities	44,764,585	-	-	-	-	-	44,764,585
Securities sold under repurchase agreements	22,300,412	9,333,825	-	-	-	-	31,634,237
Capital Management and Government Securities Funds	967,746	12,968,524	359,702	889,746	166,369	-	15,352,087
	232,821,036	138,746,366	3,484,127	6,030,746	811,396	9,446	381,903,117
NET POSITION	**85,246,800**	**10,688,730**	**155,843**	**(545,187)**	**(142,175)**	**84,526**	**95,488,537**

The following significant exchange rates were applied during the period:

	Average rate for the period		Reporting date spot rate	
	2017	2016	2017	2016
USD	128.3351	124.6602	126.6851	128.7033
CAD	98.2057	93.2833	99.1446	95.1561
GBP	163.2177	170.1607	167.0432	155.7139
EUR	140.8088	136.9285	144.0208	141.0683

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the currencies indicated above, at October 31, would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis as 2016. The strengthening of the JMD against the same currencies at October 31 would have had an equal but opposite effect on the amounts shown, assuming that all other variables remain constant.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity to foreign exchange movements (continued):

	The Group	
	2017 Increase/decrease	2016 Increase/decrease
USD	by 2.25%	by 3.75%
CAD	by 10.50%	by 15.00%
GBP	by 8.25%	by 7.00%
EUR	by 10.25%	by 8.25%

	2017	2016
Effect on profit and stockholders' equity	107,243	160,503

(iii) Equity price risks

Equity price risk arises out of price fluctuations in equity prices. The risk arises from holding positions in either individual stocks (idiosyncratic risk) or in the market as a whole (systemic risk). The goal is to earn dividend income and realise capital gains sufficient to offset the interest foregone in holding such long-term positions.

The Board sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristic of these instruments, the Group limits the amount invested in them.

At the reporting date, the Group's equity portfolio was classified as available for sale investments.

Sensitivity to equity price movements

Maximum changes observed in running 10-day periods during the financial year for the equity portfolio as at the reporting date would have increased or decreased equity by the amounts shown below:

This analysis is performed on the same basis as 2016. Prices used are the bid prices for the equities. A 10-day period is used to account for the liquidity of the local market equities.

	Equity	
	Maximum increase	Maximum decrease
October 31, 2017	-	-
October 31, 2016	27,571	(27,571)

48. Financial risk management (continued)

(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 Group'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; and

(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. It is unusual for entities 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 the third party to draw funds under the agreement. 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. 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 2017					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amounts
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	251,806,275	9,912,982	5,372,486	3,934,887	271,026,630	270,728,015
Securities sold under repurchase agreements	17,501,008	3,337,610	-	-	20,838,618	20,666,065
Capital Management and Government Securities Funds	17,844,600	-	-	-	17,844,600	17,844,600
Other liabilities	11,153,976	1,379,677	58,587	1,921,668	14,513,908	14,513,908
Policyholders' liabilities	40,665,562	10,926,612	-	-	51,592,174	45,171,156
Total liabilities	338,971,421	25,556,881	5,431,073	5,856,555	375,815,930	368,923,744

	2016					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amounts
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	246,916,540	9,122,606	6,786,490	4,217,733	267,043,369	259,563,215
Securities sold under repurchase agreements	31,736,056	2,723,564	-	-	34,459,620	31,634,237
Capital Management and Government Securities Funds	15,352,087	-	-	-	15,352,087	15,352,087
Other liabilities	9,865,410	939,206	75,595	1,520,457	12,400,668	12,400,668
Policyholders' liabilities	39,032,163	11,587,607	-	-	50,619,770	44,764,585
Total liabilities	342,902,256	24,372,983	6,862,085	5,738,190	379,875,514	363,714,792

48. Financial risk management (continued)

(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 applications and retention limits on any single life insured.

(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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

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

	The Group			
	Total benefits assured			
	2017		2016	
	Before and After Reinsurance	%	Before and After Reinsurance	%
(i) Individual Life				
Benefits assured per life				
0 to 250,000	5,343,085	10	5,814,375	11
250,001 to 500,000	2,724,812	5	2,445,877	5
500,001 to 750,000	3,080,557	6	3,336,067	6
750,001 to 1,000,000	3,338,334	6	3,443,102	7
1,000,001 to 1,500,000	9,837,896	19	9,973,343	19
1,500,001 to 2,000,000	6,208,904	12	6,150,308	12
Over 2,000,000	21,136,123	42	21,127,992	40
Total	51,669,711	100	52,291,064	100
(ii) Group Life				
Benefits assured per life				
0 to 250,000	11,377,437	13	11,584,736	14
250,001 to 500,000	4,638,807	6	4,855,451	6
500,001 to 750,000	5,202,911	6	5,539,289	7
750,001 to 1,000,000	4,377,498	5	4,541,009	5
1,000,001 to 1,500,000	15,580,668	18	15,877,647	20
1,500,001 to 2,000,000	13,360,915	16	11,889,056	15
Over 2,000,000	30,293,294	36	26,351,358	33
Total	84,831,530	100	80,638,546	100

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.

48. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long term insurance contracts (continued)

(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 of 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 own 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 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 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 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.

48. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

Retention limits represent the level of risk retained by the insurer. The retention programs used by the Group are summarised below:

Type of insurance contract	Retention
Group creditor life contracts	maximum retention of $42,000 per insured
Individual Universal Life	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 Policy Premium Method (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:

- operating expenses and taxes
- lapse
- mortality and morbidity

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. 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:

	The Group	
	2017	2016
Interest rates increase by 1%	36,697	31,198
Interest rates decrease by 1%	(1,649)	9,233
Mortality increases by 10%	457,498	429,266
Mortality decreases by 10%	(474,273)	(445,156)
Expenses increase by 10%	399,495	350,177
Expenses decrease by 10%	(395,481)	(346,269)
Lapses and withdrawals increase by 10%	298,015	261,517
Lapses and withdrawals decrease by 10%	(322,350)	(286,996)

49. 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 maximise 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 for which observable parameters do not exist, the Group uses greater management judgement for valuation purposes.

49. 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 measured based 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 measured based on 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.

(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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

49. Fair value of financial instruments (continued)

Accounting classifications and fair values:

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	The Group 2017							
	Carrying amount				Fair value			
	Amortised cost	Available-for-sale	Fair value through profit or and 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
GOJ securities	-	86,950,372	8,155	86,958,527	-	86,958,527	-	86,958,527
Bank of Jamaica securities	-	2,798,608	-	2,798,608	-	2,798,608	-	2,798,608
Treasury bills	-	292,426	-	292,426	-	292,426	-	292,426
Corporate bonds	-	28,945,327	-	28,945,327	-	28,945,327	-	28,945,327
Unitised funds	-	274,669	-	274,669	-	274,669	-	274,669
	-	119,266,507	8,155	119,274,662	-	119,269,557	5,105	119,274,662
Pledged assets measured at fair value								
GOJ securities	-	20,985,867	-	20,985,867	-	20,985,867	-	20,985,867
Corporate bonds	-	7,035,822	-	7,035,822	-	7,035,822	-	7,035,822
Unitised funds	-	1,707,268	-	1,707,268	-	1,707,268	-	1,707,268
	-	29,728,957	-	29,728,957	-	29,728,957	-	29,728,957
Financial assets not measured at fair value								
Loans and receivables	61,780,342	-	-	61,780,342	-	-	63,759,192	63,759,192

	The Group 2016							
	Carrying amount				Fair value			
	Amortised cost	Available-for-sale	Fair value through profit or and loss	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Quoted shares	-	275,706	-	275,706	275,706	-	-	275,706
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
GOJ securities	-	70,660,979	200,058	70,861,037	-	70,861,037	-	70,861,037
Bank of Jamaica securities	-	7,096,489	-	7,096,489	-	7,096,489	-	7,096,489
Treasury bills	-	2,410,672	-	2,410,672	-	2,410,672	-	2,410,672
Corporate bonds	-	29,875,081	-	29,875,081	-	29,875,081	-	29,875,081
Unitised funds	-	707,603	353,976	1,061,579	-	1,061,579	-	1,061,579
	-	111,031,635	554,034	111,585,669	275,706	111,304,858	5,105	111,585,669
Pledged assets measured at fair value								
GOJ securities	-	29,287,728	-	29,287,728	-	29,287,728	-	29,287,728
Corporate bonds	-	9,221,832	-	9,221,832	-	9,221,832	-	9,221,832
Unitised funds	-	45,394	-	45,394	-	45,394	-	45,394
	-	38,554,954	-	38,554,954	-	38,554,954	-	38,554,954
Financial assets not measured at fair value								
Loans and receivables	61,816,450	-	-	61,816,450	-	-	63,726,122	63,726,122

49. Fair value of financial instruments (continued)

Valuation Technique

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

50. 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 affairs for the benefit of depositors and policyholders. At the same time, 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 capital adequacy requirements. Required capital adequacy information is filed with the regulators at least quarterly.

Banking, mortgage lending and investment management

Capital adequacy is reviewed by executive management, the Audit Committee and the Board of Directors. Based on the guidelines developed by Bank of Jamaica and the Financial Services Commission, 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, reserve fund 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 qualified 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

50. Capital risk management (continued)

Banking, mortgage lending and investment management (continued)

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 subsidiary and identifies the applicable regulator. During the year, the individual entities complied with all externally imposed capital requirements.

	Regulated by the BOJ[1]		Regulated by the FSC[2]	
	2017	2016	2017	2016
Tier 1 Capital	39,080,498	31,971,052	14,386,365	13,609,908
Tier 2 Capital	1,485,279	1,494,189	464,162	24,615
	40,565,777	33,465,241	14,850,527	13,634,523
Less prescribed deductions	(220,000)	(220,000)	-	-
Total regulatory capital	40,345,777	33,245,241	14,850,527	13,634,523

	Regulated by the BOJ[1]		Regulated by the FSC[2]	
	2017	2016	2017	2016
Risk weighted assets				
On-balance sheet	216,501,529	214,477,930	34,059,708	29,702,953
Off-balance sheet	27,983,173	21,150,865	824,355	-
Foreign exchange exposure	922,698	1,265,953	2,135,994	3,911,798
Total risk weighted assets	245,407,400	236,894,748	37,020,057	33,614,751
Actual regulatory capital to risk weighted assets	16.44%	14.03%	40.11%	40.56%
Regulatory requirement	10.00%	10.00%	10.00%	10.00%

[1] This relates to The Bank of Nova Scotia Jamaica Limited and The Scotia Jamaica Building Society.

[2] This relates to Scotia Investments Jamaica Limited.

Life insurance business

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 requirements. 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 Jamaican regulations, the minimum standard recommended for companies is a MCCSR of 150%. The MCCSR for the insurance subsidiary as of the reporting date is set out on page 134.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

50. Capital risk management (continued)

Life insurance business (continued)

	2017	2016
Regulatory capital held	7,550,218	9,121,902
Minimum regulatory capital	1,376,113	1,455,883
Minimum Continuing Capital on Surplus Requirements Ratio	549%	627%

51. Commitments

	The Group	
	2017	2016
(a) Capital expenditure authorised and contracted	-	2,000
(b) Commitments to extend credit: Originated term to maturity of more than one year	29,260,362	22,043,607

(c) Operating lease commitments:

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

	The Group	
	2017	2016
Not later than one year	175,545	206,907
Later than one year and not later than five years	570,152	543,639
Later than five years	1,737,945	1,891,907
	2,483,642	2,642,453

52. Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. This involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The subsidiary, Scotia Asset Management (Jamaica) Limited also manages funds on a non-recourse basis, on behalf of investors. The Group has no legal or equitable right or interest in these funds and accordingly, they have been excluded from the financial statements.

At October 31, 2017, the Group had assets under administration amounting to approximately $197,436,963 (2016: $180,147,539).

53. Litigation and contingent liabilities

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

53. Litigation and contingent liabilities (continued)

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

54. Dividends

(a) Paid

	The Group		The Company	
	2017	2016	2017	2016
Scotia Group Jamaica Limited				
Paid to stockholders:				
In respect of 2017	4,200,659	-	4,200,659	-
In respect of 2016	1,400,208	3,920,607	1,400,208	3,920,607
In respect of 2015	-	1,306,869	-	1,306,869
	5,600,867	5,227,476	5,600,867	5,227,476
Paid to non-controlling interest in a subsidiary	131,360	175,126	-	-
	5,732,227	5,402,602	5,600,867	5,227,476

(b) Proposed

At the Board of Directors meeting on December 7, 2017, a dividend in respect of 2017 of $0.48 per share (2016: $0.45 per share) amounting to $1,493,555 (2016: $1,400,208) was proposed. Stockholders' equity for the current financial year does not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the ensuing financial year.

55. Employee Share Ownership Plan

The Group 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 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 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 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 company'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 employer 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 $36,983 (2016: $30,878).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

55. Employee Share Ownership Plan (continued)

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

	The Group	
	2017	2016
Number of shares	1,186,952	1,751,891
Fair value of shares $'000	60,831	54,423

56. Subsequent event

On December 1, 2017, the Group disposed of its shares in Scotia Jamaica Microfinance Company Limited (see note 37). This transaction is in line with the group's strategic direction to simplify its operations, focus on growing its core banking, insurance and investment business and deliver value to shareholders.

FORM OF PROXY

Scotia Group Jamaica Limited (the "Company")

I/We...

of...

in the parish of...................................being a Member of the above Company, hereby appoint the Chairperson of the Meeting or failing him/her (see Note 1) ....

of...

or failing them ....

of...

as my/our Proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 8th day of March 2018 and at any adjournment thereof (the "Meeting").

Please indicate by inserting a cross in the appropriate square how you wish your votes to be cast. Unless otherwise instructed, the Proxy will vote or abstain from voting, at his/her discretion.

ORDINARY BUSINESS		FOR	AGAINST
RESOLUTION 1	**Audited Accounts** That the Directors' Report, the Auditor's Report and the Statements of Account of the Company for the year ended October 31, 2017 previously circulated be and are hereby received.		
RESOLUTION 2	**Election of Directors** That the following persons shall be elected a Director of the Company for the term from the date of his or her election until the close of the next Annual General Meeting of the Company following election, subject always to earlier termination under the By-laws of the Company. Please vote:- a) **Barbara Alexander** b) **Eric Crawford** c) **Jeffrey Hall** d) **A. Mark Hart** e) **Brendan King** f) **David Noel** g) **Evelyn Smith**		
RESOLUTION 3	**Appointment of Auditors** That KPMG, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company.		

As witness my hand this...day of...

....2018.

....

Signature

NOTES:

1. If you wish to appoint a proxy other than the Chairperson of the Meeting, please insert the person's name and address and delete (initialing the deletion) "the Chairperson of the Meeting".

2. To be valid, this form of proxy and the power of attorney or other authority (if any) under which it is signed must be lodged at the office of the Secretary of the Company, 9th Floor, Scotiabank Centre, Cnr. Duke & Port Royal Streets, Kingston, at least 48 hours before the time appointed for the holding of the Meeting.

3. To this form must be affixed a $100.00 stamp in payment of stamp duty.

4. In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

5. To be effective, this form of proxy must be signed by the appointer or his/her attorney, duly authorised in writing or, if the appointer is a corporation, must be under its common seal or be signed by some officer or attorney duly authorised in that behalf.

Contact us

Call us at
1-888-429-5863 or 1-888-4-SCOTIA

E-mail general enquiries to
customercare-jam@scotiabank.com

Visit our website at
www.scotiabank.com/jm

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