



# 2020 ANNUAL REPORT

SCOTIA GROUP JAMAICA LIMITED

**Scotiabank**

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We are committed to doing our part to protect the environment. We have reduced the paper consumption associated with printing this annual report by using light-weight paper stock, reducing the number of reports printed and distributing more copies electronically.

# Scotiabank has been in Jamaica since 1889 and is a leading financial institution in the country

Scotia Group Jamaica Limited (SGJL) is a subsidiary of Scotiabank (Canada) and offers a diverse range of products and services including personal, commercial and small business banking, wealth management, insurance, and mortgages. Our expert team of Scotiabankers are committed to assisting our customers to achieve their financial goals. SGJL is an award winning institution having been named on numerous occasions as the Bank of the Year and Best Bank in Jamaica by international financial publications – The Banker, LatinFinance, Euromoney, and Global Finance magazines. SGJL has \$556 billion in assets (as at October 31, 2020).



# Corporate Data

## **SECRETARY**

Richard Fraser  
Vice President  
Senior Legal Counsel &  
Corporate Secretary

## **AUDITORS**

KPMG  
6 Duke Street  
Kingston, Jamaica  
Tel.: (876) 922.6640  
Fax: (876) 922.4500  
(876) 922.7198  
firmmail@kpmg.com.jm

## **REGISTERED OFFICE**

Scotiabank Centre  
Cnr. Duke &  
Port Royal Streets  
P.O. Box 709  
Kingston, Jamaica  
Tel.: (876) 922.1000  
Fax: (876) 922.6548  
[www.jm.scotiabank.com](http://www.jm.scotiabank.com)  
Telex: 2297  
SWIFT Bic Code:  
NOSCJMKN

## **REGISTRAR**

PwC Corporate Services  
(Jamaica) Limited  
Scotiabank Centre  
Corner Duke &  
Port Royal Streets  
Kingston, Jamaica  
Tel.: (876) 922.6230  
Fax: (876) 967.9467  
<http://www.pwc.com/jm>



# A Proud Achievement

We continue to invest in our people, our technology and our communities, so that we can offer the best solutions to help our customers achieve their financial goals.

®Registered trademark of The Bank of Nova Scotia

**Scotiabank®**

# Ten Year Statistical Review

Consolidated Balance Sheet	2020	2019	2018
<b>Balance Sheet Data - \$000</b>			
Total Assets	<b>556,281,348</b>	549,001,676	521,862,287
Performing Loans (Net of Credit Losses)	<b>215,961,142</b>	201,902,111	178,919,287
Non-Performing Loans (Gross)	<b>4,765,692</b>	3,723,273	3,687,971
Investments & Other Earning Assets	<b>238,011,952</b>	234,933,974	244,092,864
Deposits by the Public	<b>336,660,438</b>	312,968,147	287,948,379
Securities Sold Under Repurchase Agreement	-	-	31,152
Stockholders' Equity	<b>110,755,634</b>	118,114,076	115,647,730
<b>Profits and Dividends - \$000</b>			
Profit Before Tax	<b>13,397,088</b>	18,482,724	18,292,628
Net Profit After Tax Attributable to Stockholders	<b>9,052,047</b>	13,190,054	12,770,916
Dividends Paid And Proposed	<b>4,822,969</b>	14,811,171	6,067,607
Number of Stock Units at Year End	<b>3,111,573</b>	3,111,573	3,111,573
<b>Financial Ratios</b>			
Earnings Per Stock Unit	<b>2.91</b>	4.24	4.10
Price Earnings Ratio	<b>15.42</b>	12.96	13.09
Dividends Per Stock Unit	<b>1.55</b>	4.76 **	1.95
Dividend Yield	<b>3.11%</b>	8.61% **	3.66%
Dividend Payout Ratio	<b>53.28%</b>	112.29% **	47.51%
Return on Average Equity	<b>7.99%</b>	11.25%	11.54%
Return on Assets at Year End	<b>1.63%</b>	2.40%	2.45%
<b>Other Data</b>			
Tier 1 Capital (Bank Only) <sup>(1)</sup> \$000	<b>47,954,917</b>	47,931,662	39,909,535
Risk Based Capital Adequacy Ratio (Bank Only) <sup>(1)</sup>	<b>15.58%</b>	16.04%	16.91%
Stock Price at Year End	<b>44.88</b>	54.95	53.72
Price Change from Last Year	<b>(18.33%)</b>	2.29%	4.82%
Change In JSE Index from Last Year	<b>(24.20%)</b>	35.62%	24.66%
Number of Staff	<b>1,611</b>	1,650	1,727
US Exchange Rate \$1.00 = J\$	<b>145.1010</b>	138.9420	127.9971
Inflation Rate Year Over Year	<b>5.00%</b>	3.26%	4.72%

(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.

\*\* Includes special dividends of \$2.68 paid in 2019.



2017	2016	2015	2014 (Restated)	2013 (Restated)	2012 (Restated)	2011
490,882,681	477,391,654	432,931,945	407,030,262	389,260,505	358,141,805 +	332,041,259
161,979,917	162,446,895	149,997,313	140,829,220	130,332,373	117,973,642	94,719,222
4,513,674	4,379,885	4,502,060	4,902,782	4,491,383	4,551,026	5,257,217
241,897,129	249,802,716	229,603,523	216,747,750	207,670,829	198,905,245	200,539,453
260,559,467	248,416,381	209,461,602	190,726,667	183,369,415	160,994,182	144,670,083
20,666,065	31,634,237	39,832,452	47,840,197	42,588,792	45,384,758	44,700,992
102,431,566	91,855,773	85,257,232	76,484,253 *	69,775,527 *	63,974,046 +	60,310,619
18,201,458	16,640,943	14,244,136	14,357,886 *	14,631,285 *	14,369,041 +	14,244,620
12,174,742	11,300,599	9,921,429	10,457,709 *	11,980,842 *	9,932,812 +	10,193,390
5,694,214	5,320,815	5,040,748	4,978,516	4,978,516	4,698,475	4,605,128
3,111,573	3,111,573	3,111,573	3,111,573	3,111,573	3,111,573	3,111,573
3.91	3.63	3.19	3.36 *	3.85 *	3.19 +	3.28
13.10	8.67	8.43	5.72 *	5.19 *	6.65 +	7.59
1.83	1.71	1.62	1.60	1.60	1.51	1.48
4.28%	5.53%	7.01%	8.08%	7.64%	6.69%	6.48%
46.77%	47.08%	50.81%	47.61% *	41.55% *	47.30% +	45.18%
12.58%	12.65%	12.32%	14.23% *	15.64% *	15.98% +	17.59%
2.48%	2.37%	2.29%	2.57% *	3.08% *	2.77% +	3.07%
33,900,498	27,391,052	23,332,290	19,401,181	17,623,522	17,122,852	16,526,173
15.28%	12.88%	11.50%	12.08%	11.23%	11.75% +	14.95%
51.25	31.48	26.87	19.23	19.97	21.23	24.90
62.83%	17.16%	39.74%	(3.73%)	(5.91%)	(14.76%)	22.36%
75.64%	27.02%	83.05%	(12.36%)	(8.89%)	(5.72%)	14.30%
1,876	2,021	2,144	2,311	2,326	2,315	2,337
126.6851	128.7033	119.5755	112.4939	104.6866	90.8050	86.2778
4.68%	1.78%	2.03%	8.09%	9.40%	6.17%	7.26%

# 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 **Friday, March 12, 2021 at 10:00 a.m.** at The Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, Jamaica and/or virtually in accordance with an order the Company expects to receive from the Supreme Court to consider, and if thought fit, pass the following resolutions:-

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

That the Directors’ Report, the Auditors’ Report and the Financial Statements of the Company for the year ended October 31, 2020 previously circulated be and are hereby received.

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

That each of 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. Angela Fowler**

**D. Jeffrey Hall**

**E. A. Mark Hart**

**F. W. David McConnell**

**G. Leslie Reid**

**H. Audrey Richards**

**I. Anya Schnoor**

**J. Evelyn Smith**

**K. Audrey Tugwell Henry**

**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 9, 2020

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, 2020.

The Consolidated Statement of Revenue and Expenses reports pre-tax profit for the year of \$13.40 billion from which there has been provided \$4.35 billion for corporate income tax, leaving a balance of \$9.05 billion.

The appropriation of earnings detailed in the financial statements includes:

A final dividend of 45 cents per stock unit payable to stockholders on record as at December 29, 2020 payable on January 20, 2021. This brings the total distribution for the year to \$1.55 per stock unit compared with \$4.76 per stock unit for the previous year.

Ms. Anya Schnoor was appointed to the Board of Directors of the Company on November 1, 2020. Additionally, Mrs. Audrey Tugwell Henry was appointed to the Board of Directors of the Company with effect from December 9, 2020.

Director Brendan King having retired from Bank of Nova Scotia retired from the Board of Directors, Scotia Group Jamaica Limited effective October 31, 2020. Additionally, Director David Noel resigned from the Board of Directors effective December 31, 2020 as a result of an appointment to a new role with Scotiabank in Canada.

The Auditors, KPMG, Chartered Accountants, have signified their willingness to continue in office and the directors have recommended their reappointment.

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 Hall  
Chairman  
Kingston, Jamaica  
December 9, 2020

# Chairman's Message to Shareholders



**Jeffrey Hall**

Chairman of the  
Board of Directors

Dear Shareholders,

2020 was definitely a year of unprecedented challenges caused by the COVID-19 pandemic, however, I am pleased to report that Scotia Group remained profitable, continued to benefit from a strong and liquid capital base and delivered commendable results despite the worldwide economic recession. We remain committed to our strategic agenda and to growing our business.

## **CUSTOMER FOCUS**

This year forced us to temporarily adjust our focus in order to manage through the current health crisis. Our priority remains the health and safety of staff and customers. To that end, we made numerous proactive adjustments to our operations which included the implementation of physical distancing protocols for staff and customers at all locations, enhanced cleaning and sanitisation procedures, provision of personal protective equipment for employees, installation of partitions in all branch transaction areas, and the enhancement of digital channels and ABMs.

We also leveraged digital technology to ensure business continuity and to maintain service to customers. Digital transformation has been a key focus for the group and this year, the importance of digital banking services was amplified as individuals and businesses were subject to quarantine and lockdown measures. Our investments in digital technology allowed our customers to conduct their transactions seamlessly using online platforms.

The other main priority for us was to support our customers whose finances were negatively impacted due to the economic disruption caused by the pandemic. The Scotia Group launched a Customer Assistance Programme (CAP). The CAP allowed customers affected by the crisis to defer loan

payments and insurance premiums for an initial three months. Customers still in need of financial support thereafter were able to access personalised solutions based on their circumstances including debt consolidation or changes to their loan terms.

Scotiabank also introduced the Scotia Care Access account. This account has a simplified due diligence process making it easier for more Jamaicans to have a bank account. The Scotia Care Access Account can be used to facilitate the receipt of any government grant or assistance payment. We strongly believe this new account will undoubtedly increase financial inclusion which is a goal we support.

### **SOCIAL IMPACT**

Our social impact programmes also shifted focus this year as the Group joined the national response to address the pandemic. As an organisation with a longstanding commitment to community support, we immediately mobilised funds to assist in the areas of healthcare and education. Donations were made to the University Hospital of the West Indies, The Jamaica Social Stock Exchange, Unicef and the United Way of Jamaica. Funds were used to assist with the purchase of health equipment, to provide schools with adequate sanitisation and education supplies to enable distance learning as well as the reopening of face to face classes.

### **GOVERNANCE**

The Board remains committed to the highest levels of oversight and corporate governance, improving transparency and reviewing implementation of the Group's strategy. We are focused on balancing and representing the interests of all the Group's stakeholders. During the fiscal year,

Director Brendan King retired from the Board and we wish to publicly acknowledge his strong contribution during his tenure.

### **ACKNOWLEDGEMENT**

I would like to thank our customers for their loyalty and trust in us and thank our staff who went above and beyond the call of duty to ensure that we delivered high levels of service for our customers despite the challenges. My sincere thanks to my fellow board members for their sound guidance especially during this unique year. I am confident that we have made the right decisions and positioned the business for continued success in the future.



Jeffrey Hall

# President and CEO's Message to Shareholders



**David Noel**

President and Chief Executive Officer



Dear Shareholders,

Our results for fiscal 2020, were undoubtedly impacted by the global COVID-19 pandemic. Our strong performance despite the challenging operating environment is a reflection of the strength and resilience of the Group.

Our performance was also recognised by acclaimed international publication, The Banker, which named Scotiabank as Bank of the Year in Jamaica for 2020. We are proud of this achievement and remain committed to providing the best solutions for customers to help them manage their financial needs. We continue to maintain very strong capital and liquidity levels which position us well to take advantage of growth opportunities in the future.

## **FINANCIAL PERFORMANCE**

The Group recorded net income after tax (NIAT) of \$9.1 billion for the year compared to \$13.2 billion for the previous year. While the Group continued to maintain a strong underlying performance across our business lines, reduced transaction volumes along with increased provisions for expected credit losses (ECLs) under IFRS 9 had a material impact on our results particularly in Q2 and Q3. The vast majority of these provisions are not a reflection of our existing non-performing loans, but are a prudent estimate for potential future losses which may or may not arise. We had a significant improvement in our business performance in Q4 with net profit being 125.6% higher than in Q3 and \$85.7 million or 2.5% above our results in Q4 2019. We continue to return value to shareholders with dividends payments of \$1.55 per stock unit for this financial year.

## **ECONOMIC OUTLOOK**

Jamaica's economic performance continues to be severely impacted by the ramifications of the COVID-19 pandemic. The virus' impact, though systemic has been more resounding in the Hotels & Restaurants, Mining & Quarrying and Transport, Storage and Communication sectors. The effects of the pandemic have also resulted in the reversal of the previously positive trajectory of key economic variables such as the country's fiscal balance, unemployment rate and the reduction in the country's debt to GDP ratio. Notwithstanding the negative headwinds, the Government of Jamaica (GOJ), along with the continued stabilizing efforts of the Central Bank have remained committed to the liability management programme which, should continue to support

Jamaica's credit profile. The Jamaican economy will likely continue to face challenges over the next 12 to 18 months primarily attributed to continued public health uncertainties. However, we are cautiously optimistic that socio-economic conditions will improve in 2021 with the advent of the COVID-19 vaccines.

## BUSINESS LINE PERFORMANCE

We continued to see strong growth with the commercial banking loan portfolio increasing by 21% versus the prior fiscal year and our mortgage business also performed very well, with growth of 14% year over year as customers continue to choose Scotiabank as their financial partner to help them actualize their goals of owning their homes. The 8% growth in deposits is also a strong reflection of our customers' confidence in Scotiabank as their "Bank of Choice" as they navigate the economic impact of the pandemic.

As one of the leading banks in Jamaica, Scotia Group responded to the many challenges associated with the crisis with our customary grit, innovation and spirited teamwork. We assisted over 50,000 individuals and businesses through our Customer Assistance Programme (CAP) which offered loan deferrals to support those customers who were experiencing financial challenges at the onset of the crisis.

Our investments in our digital platforms over the past 3 years continue to pay dividends as we were able to quickly accelerate and execute our Digital Adoption Strategy during the pandemic. We continuously provided upgrades and enhancements across all our digital channels to allow customers more options to bank remotely and minimize potential exposure to the virus. New products and additional digital services include:

- New Automated Banking Machine (ABM) options to make loan and credit card payments
- Increased transfer limits for online banking to facilitate larger payments
- Arrangements with both local telecommunication providers to allow customers to access our mobile banking app for free
- Introduction of the MasterCard EMV chip debit cards which offer enhanced security as well as contactless (tap) payment options

Over the past several quarters, we have seen a significant reduction in branch transactions as customers continue to opt for digital banking services. This reduction accelerated during the fiscal year due to measures adopted to address

the pandemic. In keeping with those trends, in 2021 we will convert 6 branches to a digital operating model which focuses more on customer relationships and offering advice and solutions to our customers while facilitating cash transactions at ABMs. Additionally, our newly renovated Scotiabank Centre branch, which offers full service banking, including a Premium Banking Centre, was designed with a 'Social Zone' which is outfitted with iPads to facilitate online banking transactions.

We believe these changes in our branch network reflect the evolving needs of our customers and provides better options based on the type of service they require. We are fully committed to assisting all our customers to make the transition to digital banking as the wider Jamaican society shifts to digital. We have commenced a number of initiatives to enable customers, particularly senior citizens to become comfortable using our online banking platform and our Intelligent Deposit Machines.

## OUTLOOK

The Group's strong risk framework and governance has positioned us well to support our customers and adequately manage our operations through the current economic downturn. Scotia Group maintains strong capital adequacy levels that are significantly higher than regulatory requirements. We will continue to enhance our Digital Adoption Strategy which we believe is essential to our long-term success as the financial market continues to shift to digital. I am very proud of what the Scotia Group has achieved.

As I prepare to depart office and hand over the leadership of the Group to my colleague, Audrey Tugwell Henry, I must thank every Scotiabanker for their hard work and dedication to the business. I would like to thank our Board for their sound guidance during my tenure. To our shareholders, I would like to express my gratitude for the support I received over the past 3 years. To our customers, a big thank you for your continued patronage and confidence in the Bank as your trusted financial partner. I remain fully confident that the solid investments made in banking technology and our ongoing innovations will continue to deliver world-class service and financial solutions.

I am optimistic for the future of the business under Audrey's leadership and I believe Scotiabank will continue to be the Bank of choice for every future.



David Noel

# Corporate Governance



## Group Corporate Structure

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

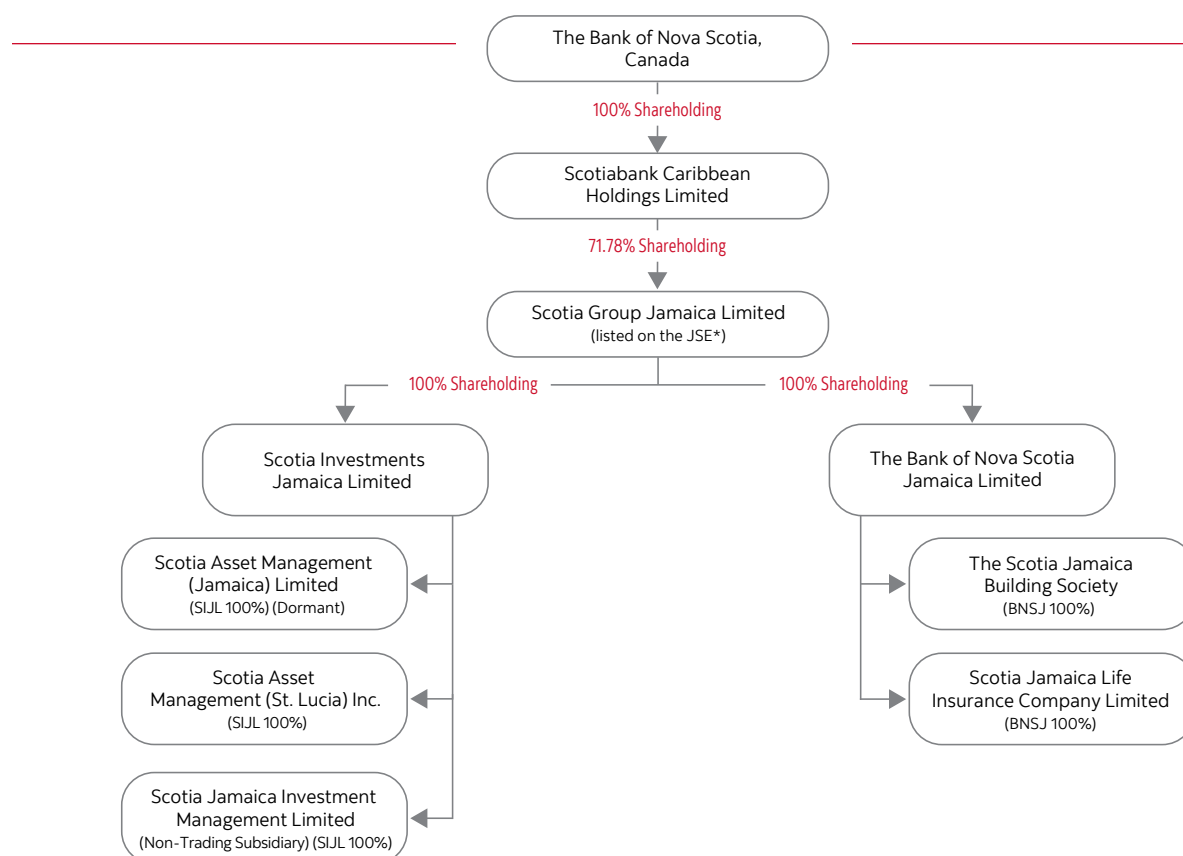
Scotia Group is the financial holding company for several entities operating within the financial sector. The Bank of Nova Scotia Jamaica Limited (BNSJ), which is its wholly owned subsidiary, is a duly licensed commercial bank and has two active subsidiaries: The Scotia Jamaica Building Society (SJBS)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

Scotia Group also wholly owns Scotia Investments Jamaica Limited (SIJL), which is licensed as a Member Dealer by the Jamaica Stock Exchange and a Securities Dealer by the Financial Services Commission.

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 ROLE AND RESPONSIBILITY OF THE BOARD OF DIRECTORS

The role of the Board of Directors is to supervise and monitor management's performance against the Board approved parameters and compliance with applicable legal and regulatory requirements. Additionally, the Directors provide advice and counsel to management to ensure that the key strategic objectives of the business are achieved.



\* Jamaica Stock Exchange

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

The Board, in accordance with its approved Board mandate, is responsible for the following key duties and functions:

- Develop the Group's approach to corporate governance principles and guidelines
- Oversee and approve the Group's strategic direction, the organisational structure and succession planning of senior management
- Evaluate the actual operating and financial results of the Group against the Group's business objectives, business strategy and plans
- Identify 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
- Oversee the integrity of the Group's internal controls and management information systems
- Identify, evaluate and select candidates for the Board of the Company and that of its subsidiaries
- Establish committees of the Group and subsidiary Boards with appropriate responsibilities, appoint Chairs for these Committees and approve the Terms of Reference for each Board Committee

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.jm.scotiabank.com](http://www.jm.scotiabank.com)

**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

## BOARD COMPOSITION

As at October 31, 2020, the Board comprised of eleven Directors chaired by Mr. Jeffrey Hall, an 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, and they are recognized as strong leaders in their respective fields of work and experience.



Board Expertise	Independent(1)/Non-Independent(NI)	General Management	Finance /Audit/Accounting	Strategic Management	Governance	H.R/ Executive Compensation	Legal/Compliance/Regulatory	Risk Management
Jeffrey Hall	I	✗	✗	✗			✗	
Barbara Alexander	I	✗	✗			✗	✗	✗
Eric Crawford	I	✗	✗	✗				
Angela Fowler	I	✗	✗			✗	✗	
A. Mark Hart	I	✗	✗	✗		✗	✗	
Brendan King	NI	✗	✗	✗	✗	✗		✗
W. David McConnell	I	✗	✗	✗				
David Noel	NI	✗	✗	✗	✗		✗	✗
Leslie Reid	NI	✗	✗	✗	✗		✗	
Audrey Richards	I	✗	✗	✗	✗		✗	✗
Evelyn Smith	I	✗		✗		✗	✗	✗

Eight of our eleven Directors are independent of the Company, its parent, subsidiaries and affiliates and ten Directors of the Board are Non-Executive Directors.

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

### AUDIT AND CONDUCT REVIEW COMMITTEE

The Group's Audit and Conduct Review 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 conflicts 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 Chairman of the Committee to meet independently with the Internal and External Auditors to discuss any areas of concern.

### EXECUTIVE AND ENTERPRISE RISK COMMITTEE

The Group's Executive and Enterprise Risk Committee has oversight responsibility for the Group and its subsidiaries in relation to the following areas:

- Corporate Strategy and Annual Profit Plans
- Review of Board nominees prior to appointment
- Review of the Corporate Governance Policy
- Enterprise and Operational 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 programmes
- 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
- Review of actuarial reports, audited financial statements of the Fund and proposed changes to the Pension Plan rules and benefits

## DIRECTORS ORIENTATION AND TRAINING OPPORTUNITIES

The Board of Directors are exposed to continuous training and education about the Group, the business line segments, products, legal and regulatory changes impacting 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 are engaged by senior management on strategic industry initiatives.

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	10	4	4	4
Jeffrey Hall	1	10	4	4	
Barbara Alexander	1	10	4		4
Eric Crawford	1	10	4		
Angela Fowler	1	10	4		4
A. Mark Hart	1	9		4	
Brendan King	1	6		2	
W. David McConnell	1	10		4	
David Noel	1	10		4	4
Leslie Reid	1	10			
Audrey Richards	1	10	4		
Evelyn Smith	1	10			1

## APPOINTMENT, TERM, ELECTION AND RETIREMENT OF DIRECTORS

All Directors automatically retire from the Board at each Annual General Meeting (AGM) and are elected or re-elected (as the case may be) 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 and 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 and Enterprise or other Committee no later than six 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.

## DIRECTORS COMPENSATION

Directors Compensation is paid on the basis of an Annual Retainer Fee which covers Directors' attendance and participation at Board and Committee Meetings throughout the course of each year.

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

Fee Structure	Annual Retainer	Annual Meeting Fee			Annual Retainer	Annual Meeting Fee
		Board	Audit & Conduct Review	Executive & Enterprise Risk		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		\$360,000	\$288,000	\$216,000		\$216,000

The Code of Conduct outlines 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 position
- Conducting themselves honestly and with integrity
- Keeping the subsidiaries' transactions, communications and information accurate, confidential and secure, and all customers' assets safe; and
- Treating everyone fairly and equitably – whether customers, suppliers, employees or others who deal with the Group and its subsidiaries
- Honouring our commitments to the communities in which we operate

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's 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 Chairperson during the year.

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

The results of the questionnaire are reviewed by the Executive & 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

as at October 31, 2020



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## 1. Jeffrey M. Hall

Jeffrey Hall is the Chief Executive Officer and a Director of the Jamaica Producers Group. He serves as Chairman of Kingston Wharves Limited and Lumber Depot Limited, a Director of Blue Power Group Limited and a Vice-President of the Private Sector Organisation of Jamaica. Mr. Hall has served as a Director of the Bank of Jamaica, the Jamaica Stock Exchange, JAMPRO, the National Housing Trust and the Institute of Jamaica.

Mr. Hall received his Juris Doctorate degree, with honours, from Harvard University and practiced banking and securities law at Davis Polk and Wardwell in New York. He holds a Master of Public Policy degree from Harvard University and a Bachelor of Arts degree in Economics from Washington University.

### 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; Scotia Jamaica Life Insurance Company Limited, Conduct Review Committee, since May 9, 2018
- Director: Scotia Jamaica Life Insurance Company Limited, since May 9, 2018
- Member: BNSJ & SGJ Audit & Conduct Review Committee; SIJL Audit & Conduct Review Committee, SJLIC: Audit Review Committee; Investment, Loan & Risk Committee, and Conduct Review 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.



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Ms. Alexander serves on the Board of Governors of the United Way of Jamaica, chairs the Board of the Arts Foundation of the Edna Manley College and is the President of Jamaica Forum of the International Women's Forum. She is a member of the Jamaica 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:-

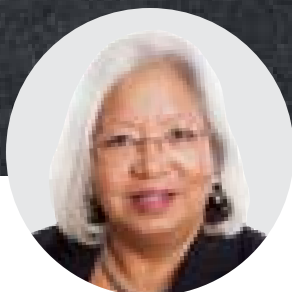
- Chair: The Scotia Jamaica Building Society; BNSJ, Human Resource & Pension Committee; SIJL, Human Resource & Pension Committee
- Director: Scotia Group Jamaica Limited (SGJ) since November 26, 2007; The Bank of Nova Scotia Jamaica Limited (BNSJ) since November 26, 2007; Scotia Investments Jamaica Limited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

## 3. Eric Crawford

Eric Crawford is one of four Commissioners appointed, by the Governor General to serve on the Integrity Commission of Jamaica, an amalgamation of three legacy anti-corruption agencies. He is the Chairman of the Jamaica International Financial Services Authority (JIFSA), and immediate past president of the Public Accountancy Board.

He has had a distinguished career in public accounting, having been a partner with PricewaterhouseCoopers (PwC) Jamaica for 26 years where he led the firm's local and Caribbean region tax practices.

Mr. Crawford is a lifetime member and 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.



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#### Scotiabank Board Details:-

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

#### 4. Angela Fowler

Angela Fowler is a practicing Attorney-at-Law since 1975 and currently the Senior Partner of the law firm, Livingston, Alexander & Levy est. 1911. She practices in the areas of commercial law, estate and corporate tax planning, pensions and employee benefits schemes.

Mrs. Fowler is a graduate of the University of the West Indies. She is a member of the Jamaican Bar Association, Private Sector Organisation of Jamaica and the International Pension and Employee Benefits Lawyers' Association.

#### Scotiabank Board Details:-

- Director: Scotia Investments Jamaica Limited (SIJL) since July 25, 2007; Scotia Group Jamaica Limited (SGJ) and The Bank of Nova Scotia Jamaica Limited (BNSJ) since May 4, 2018
- Member: SIJL, Audit & Conduct Review Committee, and Human Resources & Pension Committee; BNSJ & SGJ, Audit & Conduct Review Committee; BNSJ, Human Resources & Pension Committee

#### 5. Antony 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 Chairman Montego Bay Freezone and Director Port Authority of Jamaica and serves on the Boards We Care of Cornwall Regional Hospital and IteI-BPO Solutions.

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



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

#### 6. Brendan King

*Brendan King retired from the Board on October 31, 2020.*

Brendan King was 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 the 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



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### 7. William David McConnell

Mr. W. David McConnell is co-managing Director and co-founder of Select Brands Limited a leading Wines and Spirits Company in Jamaica. Prior to the establishment of his business he held the position of Managing Director of Sales and Marketing for J. Wray and Nephew Limited with key responsibility for increasing profitability and developing brand positioning for the company's products both locally and internationally. Mr. McConnell sits on the Board of the Supreme Ventures Limited, a member of the Jamaica Stock Exchange and Ironrock Insurance Company, a member of the Junior Market of the Jamaica Stock Exchange. He is also a Governor on the Board of Directors of Hillel Academy.

He holds an M.B.A. in Marketing and Finance from the University of Miami and a B.A., in Marketing and International Business from Florida International University.

#### Scotiabank Board Details:-

- Director: Scotia Investments Jamaica Limited since August 2, 2016 Scotia Group Jamaica Limited and The Bank of Nova Scotia Jamaica Limited since May 4, 2018
- Member: BNSJ & SGJ Executive & Enterprise Risk Committee

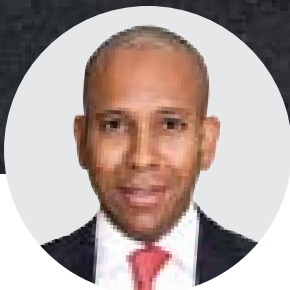
### 8. David Noel

*Mr. Noel resigned from the Board of Directors effective December 31, 2020 as a result of an appointment to a new role with Scotiabank in Canada.*

David Noel was the SVP & Head of the Caribbean Central & North and President & CEO, Scotia Group Jamaica Limited. He 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 programme.

Mr. Noel 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



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was called to the bar in Jamaica in 1997. He started his career as an Attorney at Myer Fletcher & Gordon.

#### 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 (SJLIC), The Scotia Jamaica Building Society;
- Member: BNSJ & SGJ Executive & Enterprise Risk Committee and BNSJ Human Resource & Pension Committee

### 9. Leslie Reid

Leslie Reid is the Vice President, AML and Internal Controls, International Banking, The Bank of Nova Scotia (Canada) with responsibility for the strategic direction, leadership and oversight for AML & Internal Controls (Non-Financial Risks) ensuring business strategies, plans and initiatives are supported in compliance with governing regulations, internal policies and procedures across the Caribbean, Central America, and Uruguay.

Mrs. Reid's career started with The Bank of Nova Scotia (Canada) in 1987 in Retail Banking. She has held numerous positions including senior roles in Canadian Banking before joining International Banking in 2005. She moved to Puerto Rico in 2010 to lead the integration of the acquisition of RG Premier Bank into Scotia Bank de Puerto Rico. Since returning to Canada in 2012, she has held leadership roles in Integration and Change and Operations and Shared Services.

She holds an M.B.A. in Business Administration from Dalhousie University.

#### Scotiabank Board Details:-

- Director: Scotia Group Jamaica Limited and The Bank of Nova Scotia Jamaica Limited since May 4, 2018





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### 10. Audrey Richards

Audrey Richards is a Consultant with the Development Bank of Jamaica, with responsibility for the development of the ecosystem for Venture Capital and Private Equity in Jamaica. She has held executive leadership positions in the Jamaican capital markets and has consulted for both private and public sector institutions, including the Inter-American Development Bank, Bank of Jamaica, Jamaica Stock Exchange, and the Financial Services Commission.

Ms. Richards sits on the Boards of British Caribbean Insurance Company Limited, Caribbean Mezzanine Fund 1, St. Andrew High School Foundation and the Board of Governors of the St. Andrew High School.

She holds an MBA (Finance) from the De Groote Graduate School of Business, McMaster University, Canada, and a BSc (Special Chemistry) from the University of the West Indies, Mona.

#### Scotiabank Board Details:-

- Chair: Scotia Jamaica Life Insurance Company Limited (SJLIC), since August 16, 2018; Scotia Investments Jamaica Limited, SJLIC, Investment, Loan & Risk Committee, since May 9, 2018 and Audit & Conduct Review Committee, since April 5, 2017;
- Director: Scotia Investments Jamaica Limited (SIJL), since April 5, 2017; Scotia Group Jamaica Limited & The Bank of Nova Scotia Jamaica Limited, since May 4, 2018
- Member: BNSJ & SGJ Audit & Conduct Review Committee; SJLIC, Audit Committee and Conduct Review Committee

### 11. Evelyn Smith

Evelyn Smith manages the Tensing Pen Hotel in Negril, one of Jamaica's leading character hotels. She serves on



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the Board of the 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:-

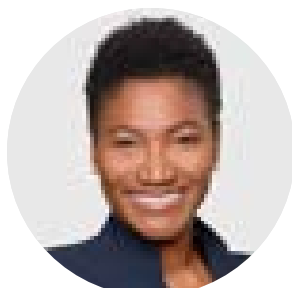
- Director: The Bank of Nova Scotia Jamaica Limited (BNSJ) since December 15, 2015
- Member: BNSJ Human Resource & Pension Committee

# Executive Management Team

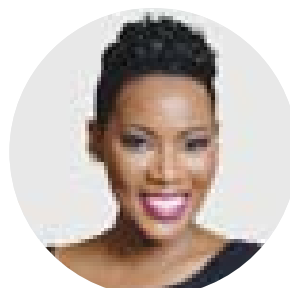
as at October 31, 2020



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**1. David Noel**

President and  
Chief Executive Officer

**2. Audrey Tugwell Henry**

Executive Vice President,  
Retail Banking

**3. Makeba Bennett-Easy**

Vice President,  
Human Resources

**4. Tricia Davies**

Vice President,  
Business Support

**5. Yanique Forbes-Patrick**

Vice President,  
Public Affairs and  
Communications

**6. Richard Fraser**

Vice President, Senior  
Legal Counsel &  
Corporate Secretary

**7. Perrin Gayle**

Senior Vice President,  
Corporate and  
Commercial Banking





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**8. Marcette McLeggon**  
Chief Risk Officer



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**9. Tonya Russell**  
Senior Marketing Manager



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**10. Adrian Stokes**  
Senior Vice President,  
Head of Insurance and  
Wealth Management



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**11. Gary-Vaughn White**  
Vice President,  
Treasury



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**12. Naadia White**  
Vice President,  
Compliance



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**13. Shelee Wilkie Channer**  
Chief Auditor



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**14. Michelle Wright**  
Chief Financial Officer

# Management's Discussion and Analysis



## Introduction

Scotia Group Jamaica Limited (Scotia Group), established in 1889 and headquartered in Kingston is one of the largest banking and financial service organisations in Jamaica, with assets in excess of \$556 billion. We provide a diversified range of financial services through our subsidiaries to a wide base of personal, commercial, corporate and government clients across all sectors within the Jamaican economy, supported by a network of 30 branches, 277 ABMs, 1,611 team members and a state-of-the-art online and mobile banking platform.

Today, Scotia Group continues to stay focused on building on 131 years of unbroken service to our customers in Jamaica as we continue to execute our strategic plans to build a bank for the future, while contributing to the growth and development of Jamaica.

### Subsidiaries

### 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 Operating Environment

### MACROECONOMIC ENVIRONMENT

Scotia Group operated in an unprecedented and challenging macroeconomic environment driven by the Coronavirus Pandemic (COVID-19) for the financial year 2020. Economic indicators were impacted by lower trade levels and muted tourist inflows throughout the year. Point-to-point inflation rate accelerated, however it remained within the Bank of Jamaica's (BOJ's) targeted range over the 12-month period to October 2020, recording 5.0% relative to 3.3% for the same period last year. This was largely due to increases in the *Food & Non-Alcoholic Beverages, Restaurants and Accommodation Services* indices partially offset by a decline in the Transport division due to lower petrol prices. In the short term it is expected that the inflation rate may breach the upper end of the BOJ's targeted range, driven by the impact of the recent heavy rains on agricultural supplies and prices, as well as an assumption for increases in some regulated utility prices.

Jamaica's fiscal commitment to economic reform remains positive, per Fitch Ratings the Government's effectiveness of the pandemic response along with the results of the General Election, signals economic and fiscal policy continuity which remain important to sovereign credit metric. However, Jamaica's 'B+' rating to Stable, from Positive in April, reflected contraction in foreign currency income from tourism, and alumina exports. Throughout the year the Government implemented several measures to support a speedy recovery of the economy once the crisis is abated. With inflation falling within the BOJ's targeted range the BOJ maintained its historic low monetary policy rate at 0.50% per annum throughout the year. In the context of preserving the Financial Sector, the BOJ implemented a bond buying programme, a reduction in cash reserve requirements for financial institutions, conducted foreign exchange swap arrangements and executed intervention sales through B-FXITT (*Bank of Jamaica Foreign Exchange Intervention Trading Tool*) to help boost the economy. According to the Statistical Institute of Jamaica (STATIN) the Jamaican economy declined during the quarter. Gross Domestic Product (GDP) for the quarter ended June 2020 declined by 18.4% compared to 1.3% for the same period last year due to declines in the Services and the Goods Producing industries.

Of note, persistent dry weather conditions also negatively impacted the *Agriculture, Forestry & Fishing industry*, as well as closures in the *Mining & Quarrying industry*. Unemployment was heavily impacted and registered a low of 12.6% as at July 2020 compared to 7.8% for the same period last year. The outlook for GDP growth in the economy has deteriorated relative to previous projections, influenced by the impact of adverse weather conditions in October 2020 and a faster pace of contraction in a number of sectors. The near-term outlook is for real GDP to contract in the range 10.0% – 12.0 % for FY2020/21 but is expected to partially recover the following year. The Jamaican economy is not expected to return to pre-COVID-19 levels before FY2022/23.

Business and consumer confidence indices continue to decline, reflecting economic and social uncertainties relating to the global pandemic. Among the contributors to the decline in business confidence is decreased optimism regarding companies' financial standing and future profits, which have not been at expected levels, as well as the expectation of a downturn in future business conditions over the short-term. Consumers are concerned about their income and future job prospects, and cited that they have either experienced cuts in their salaries or suffered job losses due to the crisis. Even though confidence slid, some businesses are anticipating recovery by the third quarter of fiscal 2021 or within 1-3 years, while while most consumers in the survey indicated that starting their own businesses would be a viable long-term option.

### FINANCIAL SECTOR PERFORMANCE

Even though economic activities slowed during the year, The Bank of Jamaica (BOJ) maintained the 0.5% interest rate policy which continues to support cheaper lending and support a quick economic recovery. As at June 2020, the overall growth in loans in the Financial Sector was 13.8% compared to 15.8% for the comparative period in 2019. Deposits grew 10.6% in 2020 vs. 7.9% for 2019. Total assets expanded 8% compared to 9% for 2019. Additionally, as at June 2020, commercial banking sector loans to the private sector increased by 17.1% or \$56.0 billion (16.9% or \$47.5 billion in 2019), due mainly to growth in the *Construction, Electricity, Gas & Water*, sectors. Credit quality for the sector declined slightly with non-performing loans representing 2.7% of total loans as at June 2020, relative to 2.3% for the same period last year due to the impact of the COVID-19 pandemic.

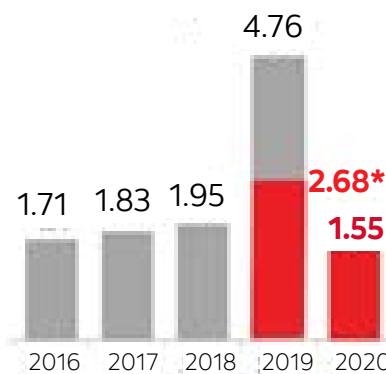
The Collective Investment Scheme industry (unit trusts and mutual funds) decreased by 4% to US\$2.3 billion for the year ended October 31, 2020, due to economic contraction and uncertainty among investors. Of note, gross life insurance premiums sold in the industry as at August 2020, were higher year over year by \$392 million or 1.4%.

## Overview of Financial Results

### TOTAL REVENUE

Scotia Group's net profit attributable to common shareholders was \$9.1 billion, representing a return on equity of 7.99%. These results translated to earnings per share of \$2.91, a reduction from the prior year amount of \$4.24 which included special dividends of \$2.68. The dividend per share was \$1.55, representing a dividend payout ratio of 53.3%. The COVID-19 global pandemic and the resultant economic downturn adversely impacted our results for this financial year, with significant increases in expected credit losses under IFRS 9 and a one-time restructuring provision. If these amounts are excluded net income would be down \$380 million or 2.4% due to the decline in economic activities and the lower volumes from the effects of global pandemic.

### Dividends per Share (\$)



\* Special dividends of \$2.68 paid in 2019

### Dividend Payout Ratio (%)



\* Special Dividend Payout Ratio of 49.07% excluding special dividends of \$2.68

Our results were achieved from the strong performance of our diversified business lines through unprecedented challenges. The Group displayed resilience during the pandemic, which reflects the benefits from our investments in our assets, people and technology. Our core business remains strong and continues to perform well with strong growth in loans although impacted by higher expected credit losses (ECLs) under IFRS 9, as well as contracting margins. Additionally, our Treasury, Investment and Insurance business lines were impacted by lower economic activities resulting from the crisis. There was a 3% increase in our expenses primarily due to one off restructuring provisions and costs associated with executing our digital strategy in the context of servicing and maintaining our Automated Banking Machines (ABMs), as our digital channels became the primary customer-engagement model at the start of the pandemic. These additional expenditures contributed to the decline in our productivity ratio from 53.3% in the prior year to 56.3% for this financial year.

Financial Highlights	31-Oct-20 \$millions	31-Oct-19 \$millions
Total Assets	<b>556,281</b>	549,002
Investments	<b>138,364</b>	138,998
Loans (net of expected credit losses)	<b>220,727</b>	205,625
Deposits by the Public	<b>336,660</b>	312,968
Liabilities under repurchase agreements and other client obligations	<b>19,158</b>	20,292
Policyholders' Fund	<b>45,300</b>	45,140
Shareholders' Equity	<b>110,756</b>	118,114
Profit after Tax	<b>9,052</b>	13,190
Total Comprehensive Income	<b>-2,224</b>	18,104
Return on Average Equity	<b>7.99%</b>	11.3%
Productivity Ratio	<b>56.3%</b>	53.3%
Operating Leverage	<b>-5.4%</b>	-2.5%
Earnings per share (cents)	<b>291</b>	424
Dividend per share (cents)	<b>155</b>	476

Scotia Group is one of the largest banking and financial services organisations in Jamaica, with assets of \$556 billion and customer deposits of \$337 billion as at October 31, 2020. The growth in our asset base was achieved through client acquisition and deepening

relationships across all customer segments; corporate and commercial, consumer, as well as small and medium sized enterprises. Non-accrual loans as a percentage of gross loans increased from 1.8% last year to 2.1% due to the COVID-19 pandemic, in response the Bank implemented a broader de-risking initiative.

The total value of clients' funds in the Collective Investment Schemes in Scotia Investments marginally declined by \$235 million to \$69.6 billion over the prior year, impacted by a slowdown in economic activities.

The Bank was well positioned at the onset of the pandemic due to its strong and high-quality capital level, which solidifies the resilience of our business and our ability to withstand market volatility, and further provides our valued customers and shareholders with confidence that we are building for the future.

## Our Strategy

Our strategic priorities have been the roadmap for our continued success, which consist of three pillars, deeply focused on our customers and built on a strong risk culture. Our strategic pillars keep the focus on balancing key growth opportunities and structural transformation while delivering a superior experience to customers.

These are the mainstays we believe will have the greatest impact and will drive long-term value creation for all stakeholders.

### 2021 STRATEGIC FOCUS

**Customer First:** We will continue to deepen our primary relationships with our customers by providing relevant and personalized product offerings to fulfil their financial needs.

Our valued customers are our top priority and they are placed at the centre of the decision-making processes throughout our organisation. We take pride in knowing and understanding their needs in order to provide them with relevant and personalized financial solutions to achieve their future goals and become financially better off. We continue to introduce strategies to deepen our relationship with customers and equip our employees to effectively resolve customer concerns to make it easy for them to do business with us. We are committed to providing a superior and seamless customer experience through the enhancement of our distribution channels, to better serve our client segments. The Pulse, our customer feedback system continues to yield positive results and

has indicated our customers' growing preference for the convenience of our digital channels which offer a more cost effective and convenient way to conduct transactions. Scotia Group remains focused on being the most trusted bank wherever we operate and as such, maintaining the trust and confidence of customers remain paramount in everything that we do.

**Winning Team:** We are committed to creating and maintaining an inclusive environment, demonstrated through people and our practices that allow us to become a workplace of choice for the diverse communities that we serve.

Developing and nurturing our talented employees is a high priority for Scotia Group. Our robust recruitment practices are designed to attract a diverse pool of high potential team members with the required knowledge and skills which 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 always doing the right thing, to maintain strong engagement and ensure that the Group continues to deliver a winning value proposition to all stakeholders.

**Lead in the Americas:** We are re-imagining the customers' experience through our digital solutions to better serve our customers and outperform others.

We continue to make investments in our digital platforms and ABM network in order to provide customers with convenient, affordable choices to conduct their banking transactions, while driving value creation. As evolving consumer demands heightened competition and significant advances in technology continue to re-shape the financial services industry, we continue to operate at the highest standard with a winning mindset in all that we do. We have heightened our efforts to accelerate digital and mobile banking as well as other innovative solutions to improve outcomes for our customers.

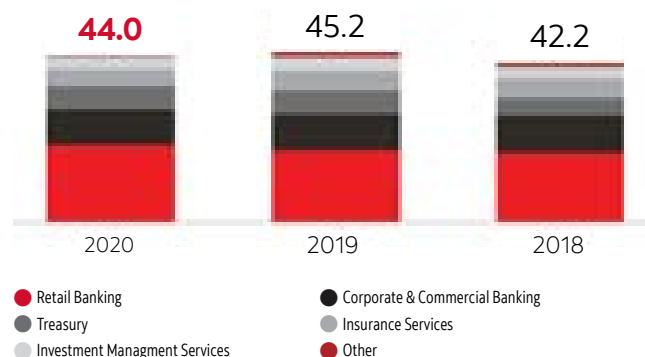
## Group Financial Performance

### TOTAL REVENUE

Total revenue excluding expected credit losses was \$44.0 billion in 2020, compared to \$45.2 billion for 2019. Our revenue for this fiscal was lower, due to the decline in transaction volumes as a result of the COVID-19 global pandemic which resulted in lower net fee and commission income. We achieved solid growth in our retail business line, amidst declines in commercial revenues, insurance services, investment management, and treasury business lines, which were impacted by lower interest rates and lower business activities.

### Revenues by Business Line

(Excluding expected credit losses) \$ Billions



- **Retail (+8%):** Loan growth was led by residential mortgages which grew \$5.3 billion or 14% over prior year, off-set by scotia plan loans which were lower by 6% or \$5.5 billion due to the impact of COVID-19. Overall, our total retail loans amounted to \$125 billion and remained flat over last year. The increase in revenues was as a result of the extinguishment of debt arrangements.
- **Commercial (-2%):** Commercial loan balances grew by 21% year over year, as well as higher deposit and payment services in our merchant services, lower yields was the main contributor to the reduction in revenue in this business segment.

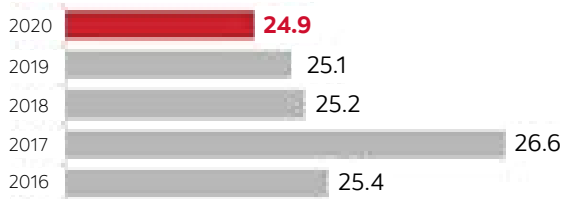
- **Insurance Services (-15%):** The reduction in our insurance revenues was due to lower premium income year over year as well as lower sales productivity resulting from the global pandemic, this was partially offset by higher actuarial reserve releases and gains from the sale of securities.
- **Investment Management (-12%):** Revenues in our investment management segment declined year over year, driven by lower net interest income resulting from a reduction in higher yielding assets. This reduction was partially offset by fees from our Asset Management segment which increased by 7% year over year despite the challenging operating environment.
- **Treasury (-3%):** Lower interest rates as well as a reduction in fair value gains on some securities were the major drivers behind the reduction in our Treasury revenues due to a vast extent by the global pandemic.

## NET INTEREST INCOME

Loan volumes improved year over year despite the impact of COVID-19, however, interest income was impacted by declining portfolio yields due to lower interest rates. We recorded net interest income before expected credit losses of \$24.9 billion, flat when compared to 2019. The Group's average earning assets increased by 4.0%, while the net interest margin (net interest income as a percentage of average earning assets) declined relative to the previous year by 24 basis points.

### Net Interest Income

\$ Billions



### Net Interest Margin Analysis (\$'000)

	2020	2019
Rate Variance	(1,133,771)	(1,091,348)
Volume Variance	872,319	1,002,626
Net Interest Income	(261,452)	(88,722)

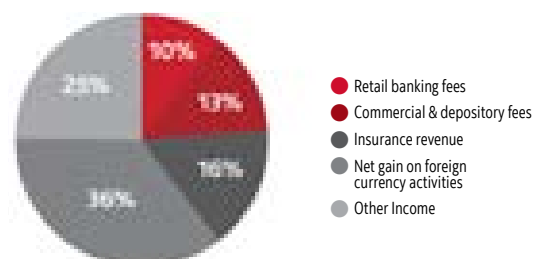
Average yields on earning assets were lower by 31 basis points as a result of the lower interest rate environment. The year over year growth in volumes contributed a positive \$872 million to net interest income, partially offsetting the negative impact from declining yields of \$1.1 billion.

## OTHER INCOME

Other income, defined as all income other than interest income, was \$19.2 billion for fiscal year 2020, down \$873 million or 4% from prior year.

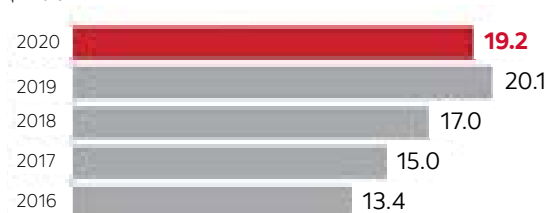
- Insurance other income was lower by 8.9% and amounted to \$3.0 billion compared to \$3.3 billion for 2019, driven by a reduction in premium income which was partially offset by higher actuarial reserve releases.
- Fees and Commissions were down \$946 million or 11.7% compared to last year and totaled \$7.2 billion. Lower net fees noted were primarily due to lower transaction volumes resulting from the COVID-19 pandemic, as well as the Group's continued execution of its digital adoption strategy to shift transactions to online and mobile banking. Throughout the year, the Group continued its drive to educate customers on alternative channels which attract lower fees.
- Foreign exchange revenues amounted to \$6.8 billion compared to \$7.0 billion for 2019. The marginal reduction of \$108 million or 1.6% was attributable to decreased market activities.
- Net gains on financial assets were down \$536.1 million or 36% and amounted to \$941 million compared to \$1.5 billion for last year. The decline noted was as a result of lower revaluation gains and lower trading gains due to the pandemic.
- Other revenue increased by \$1.0 billion or +100% and amounted to \$1.2 billion compared to \$220.9 million last year due primarily to gains realized on the extinguishment of debt arrangements.

### Sources of Non-Interest Revenues (%)



## Other Income

\$ Billions



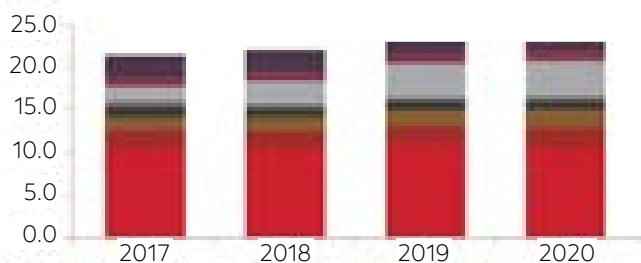
## Non-Interest Expenses

Non-Interest expenses for the year totaled \$24.8 billion, up \$702 million or 2.9% year over year. The increase noted was primarily attributed to an increase in other operating expenses of \$914 million or 9.6% and property expenses of \$280 million or 13.1%. These increases were partially offset by a reduction in salaries and employee benefits which represents 42.8% of our operating costs. Of note, the reduction in salaries of \$518.8 million or 4.6%, was primarily due to continued expense management initiatives partially offset by the restructuring provisions recorded. The increase in other operating expenses was driven by costs associated with the servicing and maintenance of our ABMs, higher marketing costs which was geared at sensitizing customers about our Customer Assistance Programme, various digital channels and our new mobile app as a result of the pandemic. Other operating expenses included one off expenditures totaling \$247 million which were directly incurred as a result of the COVID-19 pandemic. Excluding COVID-19 expenses and the restructuring provisions recorded, operating expenses would have been lower by \$309 million or 1.3% over last year.

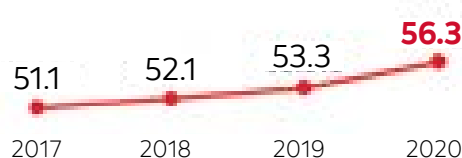
Our productivity ratio, which is calculated as total expenses as a percentage of total revenue (excluding expected credit losses), increased to 56.3% from 53.3% in 2019, due to margin compression and lower transaction volumes arising from the COVID-19 crisis.

## Non-Interest Expenses

\$ Billions



## Productivity Ratio (%)





## TAXES

For the year ended October 31, 2020 income tax expense totaled \$4.3 billion, down \$947.6 million or 17.9% from last year. However our effective income tax rate increased to 32.4% from 28.6% as a result of an increase in taxable income in 2020. When asset tax of \$1.2 billion is added, the tax expense for the year equated to 38.0% of our pre-tax income.

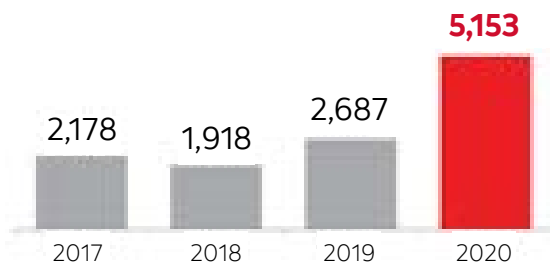
Taxation Charge (\$'000)	2020	2019	2018
<b>Profit Before Taxes</b>	<b>13,397,088</b>	<b>18,482,724</b>	<b>18,292,628</b>
<i>Current Income Tax:</i>			
Income tax calculated at 33⅓%	3,245,090	3,777,626	3,781,195
Income tax calculated at 30%	672,242	522,179	455,918
Income tax calculated at 25%	871,405	983,137	1,096,376
Adjustment for over provision of prior year's charge	–	(4,013)	(5,275)
	<b>4,788,737</b>	<b>5,278,929</b>	<b>5,328,214</b>
Deferred Income Tax	(443,696)	13,741	193,498
<b>Taxation Charge</b>	<b>4,345,041</b>	<b>5,292,670</b>	<b>5,521,712</b>
<b>Effective Tax Rate</b>	<b>32.4%</b>	<b>28.6%</b>	<b>30.2%</b>

## CREDIT QUALITY

Expected credit losses on loans amounted to \$5.7 billion, and were up \$3.0 billion over prior year impacted by additional provisions based on the revised assumptions incorporated in the impairment methodology due to the global COVID-19 pandemic. Non-accruals loans (NALs) as at October 31, 2020 was \$4.8 billion, up \$1.0 billion or 28% compared to prior year. NALs currently represent 2.1% of gross loans and 0.9% of total assets as at year end October 31, 2020. The Group's NALs as a percentage of gross loans and total assets remain below the industry average.

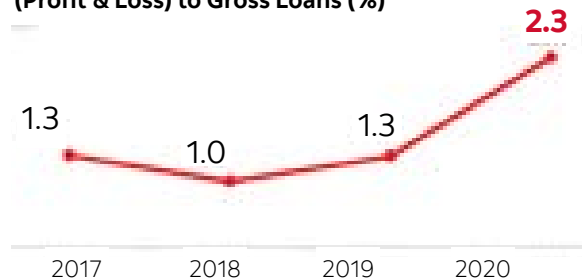
### Expected Credit Losses

\$ Millions



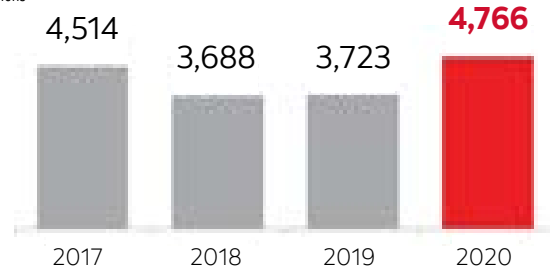
### Expected Credit Losses

(Profit & Loss) to Gross Loans (%)

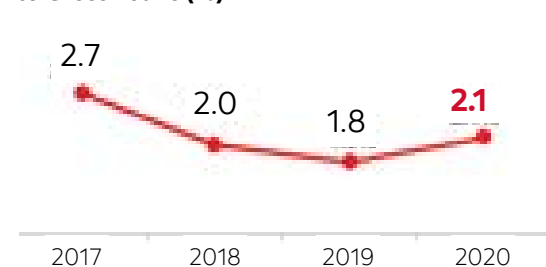


### Non-Accrual Loans

\$ Millions



### Non-Accrual Loans to Gross Loans (%)



**Credit Quality** *(continued)*

The total expected credit losses reflect higher levels of IFRS provisions. Provisions which meet the regulatory requirements but exceed the IFRS standards are credited to a non-distributable loan loss reserve. The table below shows the IFRS and regulatory provisions for the past three years and the expected credit losses for 2020.

Loan Loss Provision Analysis (\$'000)	2020	2019	2018	2017
Gross Loans	<b>228,703,117</b>	209,775,324	184,822,921	168,813,395
Non Accrual Loans	<b>4,765,692</b>	3,723,273	3,687,971	4,513,674
Expected Credit Losses (2017-2018: Impairment Allowance)	<b>7,976,283</b>	4,149,910	2,215,663	2,319,804
Loan Loss Reserve	<b>220,791</b>	2,304,057	2,377,843	2,687,050
Total Regulatory Expected Credit Losses	<b>8,197,074</b>	6,453,997	4,593,506	5,006,854
IFRS Expected Credit Losses	<b>3.5%</b>	2.0%	1.2%	1.4%
IFRS Expected Credit Losses as a % of Non Accrual Loans	<b>167.4%</b>	111.5%	60.1%	51.4%
Total Regulatory Expected Credit Losses as a % of Gross Loans	<b>3.6%</b>	3.1%	2.5%	3.0%
Total Regulatory Expected Credit Losses as a % of Non Accrual Loans	<b>172.0%</b>	173.3%	124.6%	110.9%
Total Assets	<b>556,281,348</b>	549,001,676	521,862,287	490,882,681
Net Loans (after expected credit losses)	<b>220,726,834</b>	205,625,384	182,607,258	166,493,591
NAL : Gross Loans	<b>2.1%</b>	1.8%	2.0%	2.7%
NAL : Net Loans	<b>2.2%</b>	1.8%	2.0%	2.7%
NAL : Total Assets	<b>0.9%</b>	0.7%	0.7%	0.9%

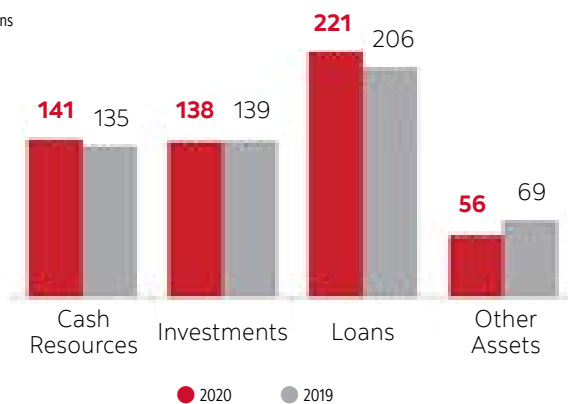
## Group Financial Condition

### ASSETS

Total assets increased by \$7.3 billion or 1% to \$556.3 billion as at October 31, 2020. The increase in our asset base was driven by a \$15.1 billion or 7.3% growth in our loan portfolio, as well as a \$6.3 billion or a 4.6% increase in cash resources. These increases were partially offset by a decline in other assets of \$13.4 billion or 19.4% and a marginal decline in our stock of investment assets which fell by \$635 million or 0.5%. The main driver for the reduction in our other asset category resulted from a decrease of \$15.5 billion or 35.4% in our retirement benefit assets which was directly related to the fall off in the JSE indices.

#### Asset Mix

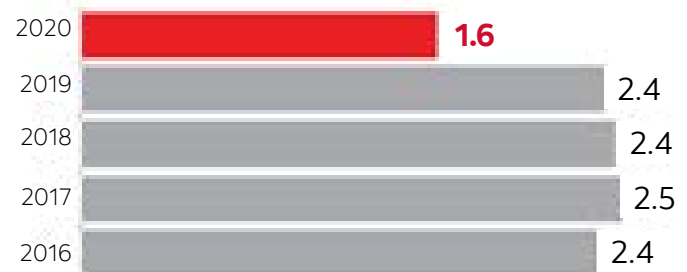
\$ Billions



#### CASH RESOURCES

Cash resources held to meet statutory reserves and the Group's prudential liquidity targets stood at \$141.3 billion as at October 31, 2020, up \$6.3 billion or 4.6% from \$135.0 billion last year. The growth was due to increases in our core deposits. We continue to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

#### Return on Assets (%)



#### INVESTMENTS

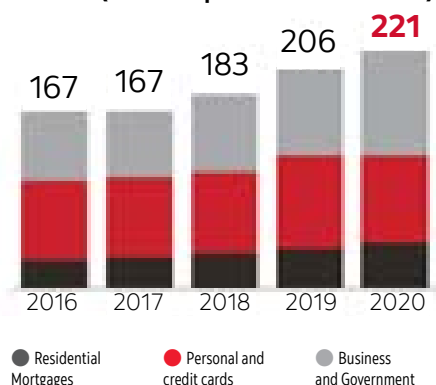
Total investment securities, amounted to \$138 billion a reduction of \$635 million or 0.5% below prior year due mainly to lower balances being held in our investment company arising from the sale and maturity of investment securities.

## LOANS

Our loan portfolio grew by \$15.1 billion or 7.3% for this fiscal year. After allowance for expected credit losses the loan portfolio, stood at \$220.7 billion. We had solid growth in our core business lines, with residential mortgages showing strong growth of 14%, business and government increasing by 21%, partially offset by personal and credit cards which decreased by 6% over the prior year.

### Loan Portfolio (net of expected credit losses)

\$ Billions



## LIABILITIES

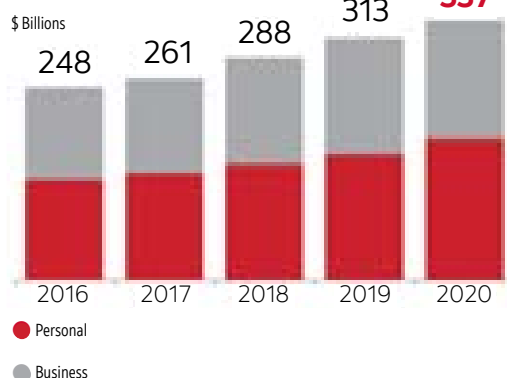
Total liabilities as at October 31, 2020 was \$445.5 billion, an increase of \$14.6 billion or 3%. The growth in our liabilities was as a result of increases in our retail and commercial customer deposit base during the year.

## DEPOSITS

Deposits by the public increased to \$336.7 billion, up from \$313.0 billion in prior year. This increase represents \$23.7 billion or 7.6% growth in core deposits which was reflected in higher inflows from our retail and private sector portfolio, as we continued to expand our customer base and deepened relationships with customers.

### Deposit Portfolio

\$ Billions

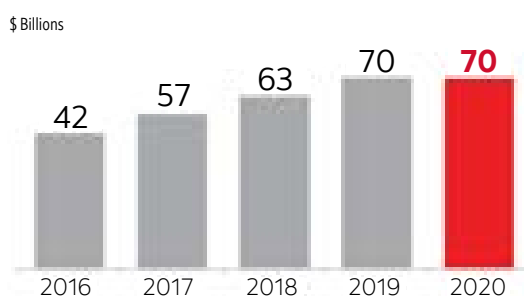


### Obligations related to repurchase agreements, capital management and government securities funds

This mainly represents placements by clients of Scotia Investments in addition to other wholesale funding. Our strategic focus is to grow our mutual funds and unit trusts business lines, however, the net of these obligations decreased by \$1.1 billion or 5.6% compared to last year. Of note, our Assets under administration including the company's custody book was \$233 billion as at October 31, 2020, a reduction of \$8.8 billion or 4% year over year.

### Funds Under Management Unit Trusts & Mutual Funds

\$ Billions

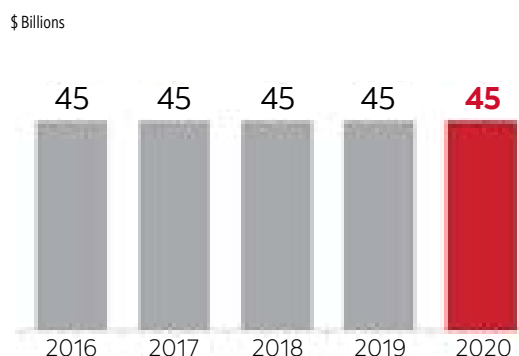


## POLICYHOLDERS' FUND

The Policyholders' Fund reflects the insurance contract liabilities held at Scotia Insurance for our ScotiaMINT product. As at October 31, 2020 the Fund stood at \$45.3 billion, compared to \$45.1 billion in 2019.

### Policyholders' Fund

\$ Billions

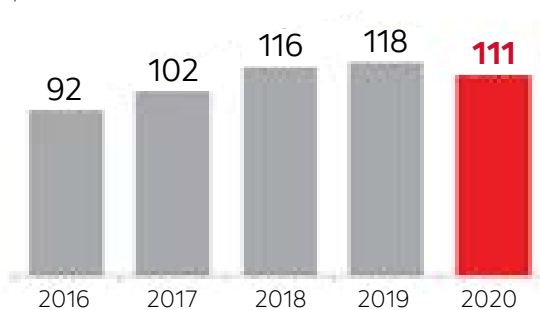


## SHAREHOLDERS' EQUITY

Total shareholders' equity was \$110.8 billion in 2020, a reduction of \$7.4 billion or 6.2% over the prior year, which was driven mainly by the re-measurement of the defined benefit pension plan assets.

### Shareholders' Equity

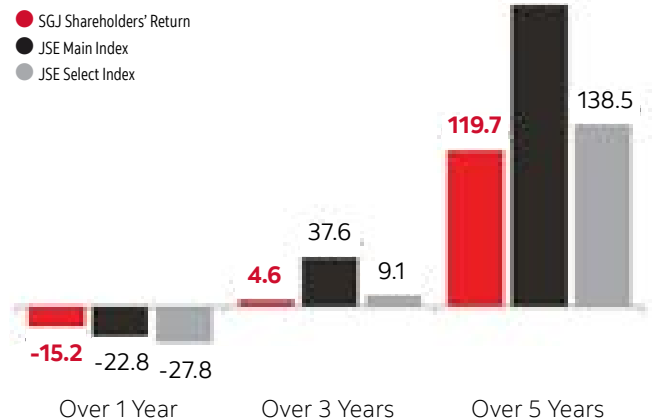
\$ Billions



## SHAREHOLDERS' RETURN

We remain focused on achieving sustainable long-term earnings growth and a high return on equity for our shareholders. Though shareholders continue to receive quarterly dividends, which totaled \$1.55 per share, the downturn in economic activities caused by the COVID-19 global pandemic impacted the JSE Indices and curtailed Shareholders' return for the financial year 2020. Shareholders' return declined to -15.2% (including both dividends and change in the price of the Group's common shares). Returns this year yielded 4.6% over the last 3 years and 119.7% over the last 5 years.

### Shareholders' Returns (%)



Shareholder returns for the 3 and 5 year horizons were largely influenced by the 83.1% and 75.6% increase in the Jamaica Stock Exchange (JSE) Index in the 2017 financial year. Scotia Group's closing share price declined by 18.3% to close the year at \$44.88 per share. Our consistent dividend policy continues to be a key component of shareholder return.

Shareholders' Returns – For the years ended	2020	2019	2018
Closing Market Price (\$)	44.88	54.95	53.72
Dividends Paid (\$)	1.55	4.76*	1.95
Dividend Yield	3.11%	8.61%*	3.66%
Change in Share Price	-18.33%	2.29%	4.82%
Total Annual Shareholder Return	-15.22%	10.90%	8.48%

\* Dividend Yield of 3.76% excluding special dividends of \$2.68 paid in 2019

## 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 businesses to enhance shareholders' return. The Group's capital management framework includes a capital adequacy assessment process to ensure that the Group is able to 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).

Capital Adequacy	2020 Capital Adequacy Ratio	2019 Capital Adequacy Ratio	Regulatory Requirement	Excess over Regulatory Requirement
<b>Banking and Building Society</b>	16.6%	17.0%	10.0%	6.6%
<b>Investment Management</b>	35.9%	40.9%	10.0%	25.9%
<b>Life Insurance</b>	493.0%	460.0%	150.0%	343.0%

We continue to exceed regulatory capital requirements in all our business lines.

## BUSINESS OUTLOOK

After the successful completion of its economic reform programme, supported by its Stand-By Arrangement from the International Monetary Fund (IMF) in 2019, the country was in a robust fiscal and macroeconomic position to respond to the shocks from the COVID-19 pandemic. However the internal shock from the crisis has been more distinct in key sectors such as Tourism, Agriculture and Manufacturing. Of note, the depth and severity of the economic fallout will continue to be shrouded in uncertainty and as such the Government of Jamaica has requested emergency financial support under the IMF's Rapid Financing Instrument of 100 percent of quota or approximately US\$520 million.

Even though there is push for a quick recovery, the pace will most likely depend on the impact of the second or third waves of the virus which could cause global lock downs and further travel restrictions, as well as short term economic threats such as missed fiscal targets, widening of the current account deficit, increased unemployment, constrained economic growth, and pressured international reserves. Additionally, as it relates to vaccine developments, though positive, there are still challenges and uncertainties surrounding the uptake, distribution and administration of the vaccine. These uncertainties will continue to force governments to maintain contact and mobility restrictions to continue to contain the virus as they may fall short of totally inoculating their population.

Despite projections for economic contraction and lower business and consumer confidence driven mainly by uncertainties around the climate for investment and expansion, most sectors though hard hit by the global pandemic, are expected to rebound when the crisis abates and the GOJ is expected to continue building on their reform agenda to support economic recovery and ensure sustainable economic growth.

Moderate levels of liquidity in the local market is expected to maintain downward pressure on local interest rates which will provide further support for the investment agenda in upcoming periods providing greater enhancements to economic rebound. These circumstances continue to drive competition in the financial industry.

The Group understands the importance of steering through uncharted waters, from maintaining liquidity to re-adjusting operations to navigate and safely weather the current crisis. We are aware that an ever evolving customer base forces financial institutions to fundamentally change the way they do business in light of the digital revolution, mounting market competition, and the current crisis. In response to these continuous industry shifts, we continue to make investments in our digital platforms and ABM network in order to provide customers convenient and affordable options to conduct their banking transactions. We are proud of our investments as we have seen a significant reduction in branch transactions which has been accelerated due to measures adopted to address the pandemic. Our focus will continue to be on our core business and utilizing our full range of products across our business lines to identify and provide enhanced solutions to satisfy our customers needs, demands and expectations. We will continue to enrich the experience of our customers by offering them greater speed and convenience in our service delivery, as we continue to improve our operational efficiency through our digital and alternate banking channels.

We expect that our Retail, Corporate & Commercial and Small Business customers will continue to grow their operations as they seek to benefit from any new strategies that the Government may implement to help them grow and expand. We will capitalize on opportunities as they arise, and continue to support our customers by assisting them to meet their financial goals.

Our people continue to be the dominant force behind our operational activities and we will continue to improve our workforce transformation by integrating our people, processes and technology to improve efficiency and better serve our customers, as our success depends on the immeasurable contribution of our valued team members.

Our head office branch which was newly renovated incorporated digital technology to create a new world-class banking experience for our customers and as such it was designed with a Social Zone outfitted with iPads to facilitate customer transactions. We will continue our thrust to remain the financial partner of choice, leveraging our growing global footprint as well as our team of expert professionals, to offer a wide range of tangible solutions to our customers while delivering superior customer experience for the benefit of all our stakeholders.

We are optimistic about our business prospects despite the challenges in the year ahead as the Group is well positioned to capitalize on opportunities that will be created while managing the associated risks. We will continue to reimagine banking while maintaining a disciplined approach in the execution of our strategic agenda, which will persistently drive long-term shareholder value "for every future".

# Risk Management





The role of risk management has expanded, however the focus continues to be to minimize exposure, protect the Group's assets while working collaboratively with other key stakeholders to increase shareholder value. The Group's risk management activities are designed to ensure that there is a balance between risk and reward and that the results of risk-taking activities are consistent with the Group's strategies and risk appetite.

### RISK MANAGEMENT PRINCIPLES

Risk-taking and risk management activities across the Group are guided by the following principles:

- **Risk and Reward** – business decisions are aligned with strategies and risk appetite
- **Understand the Risks** – all material risks to which the Group is exposed including financial and non-financial are identified and managed
- **Forward Thinking** – emerging risks and potential vulnerabilities are proactively identified
- **Shared Accountability** – every employee is accountable for managing risk
- **Customer Focus** – understanding our customers and their needs is essential to all business and risk decision-making
- **Protect our Brand** – all risk taking activities must align with the Group's risk appetite, Code of Conduct, Core Values and policy principles
- **Compensation** – performance and compensation structures reinforce the Group's values and promote sound risk taking behavior

## 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 evaluated constantly 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

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) expresses the amounts and types of risk the Group is willing to take to meet its strategic objectives. The RAF consists of the identification of risk capacity, a risk appetite statement and risk appetite measures. Together, these components help to ensure the Group stays within its 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 tools that are guided by the Group's Risk Appetite Framework which are integrated within the Group's strategies and business planning processes. Risk management tools are revised regularly and refreshed 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

The Group's risk culture is influenced by several factors including the interdependent relationship amongst the Group's risk governance structure, risk appetite, strategy, organisational culture, and risk management tools. Risks are managed within the framework of policies and limits approved by the Board of Directors. The Board receives quarterly reports on risk exposures and performance against approved limits. Senior management committees meet regularly and provide oversight of various risks; while the Group's Risk Management Unit provide independent oversight of the significant risks within the Group.

## THREE LINES OF DEFENCE

Successful risk management requires that every employee becomes a risk manager and is responsible for managing risks. Scotia Group's Risk Management Framework is grounded in the three lines of defence model. Within this model:

- **First Line:** As the first line of defence the Business Lines identify, own, assess and manage the risks
- **Second Line:** Risk Management units and other control functions provide independent oversight and objective challenge to the first line of defence, as well as measuring, monitoring, reporting and controlling risk
- **Third Line:** Internal Audit Department provides assurance that control objectives are achieved by the first and second lines of defence.

# Principal Risk Types

## FINANCIAL RISK

These risks are directly associated with the Group's primary business and revenue generating activities and are generally quantifiable. The Bank has a higher risk appetite for financial risks which are considered to be an essential part of doing business; but only when they are well understood, within established limits, and meet the desired risk and return profile.

## 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.**

The Group's Risk Management Units develop the credit risk management programme and credit risk policies that detail, among other things; the credit risk rating systems and associated parameters, the delegation of authority for granting credit, the calculation of the allowance for credit losses, and the authorization of write-offs. The Board reviews and approves the Group's Credit Risk Policy and key credit risk related documents and limits. The Group's counterparty credit risk-taking activities include Securities Financing Transactions (SFTs), such as repurchase/reverse repurchase transactions for Treasury's liquidity management purposes and securities borrowing/lending. These types of risk taking activities give rise to counterparty credit risk. The Counterparty Credit Risk Management Framework and Credit Risk Policy describe the approach taken to manage counterparty credit risk.

## 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; however, there are 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 include a proprietary component. In its trading activities, the Group primarily 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, the objective being to enhance net interest income within established risk tolerances. Exposures are managed to control the impact of changes in interest rates on 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. Further details on the interest rate risk exposure for the Group are summarized in Note 47 (c) (i) of the Financial Statements.

#### FOREIGN CURRENCY RISK

This arises from foreign currency operations and is typically mitigated by financing foreign currency assets with borrowings in the same currencies.

The foreign currency risk exposure for the Group is summarized in Note 47 (c) (ii) of the Financial Statements.

#### CREDIT SPREAD RISK

This emerges from investment portfolios that the Group holds to meet liquidity and statutory reserve requirements and investment purposes. Debt investments primarily consist of government and corporate bonds. The majority of these securities are fair valued using prices/yields obtained from external sources.

#### EQUITY PRICE RISK

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.

### 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 liquid asset resources under stressed conditions.
- **Contingency planning** – the Group maintains a Liquidity Monitoring and 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 analyzed 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.

## **NON- FINANCIAL RISK**

Non-financial risks directly or indirectly affect the Bank's primary business and revenue generating activities. They are inherent to the Group's businesses, and if not managed properly, could have significant operational, strategic, business, and/or reputational consequences. Unlike financial risks, these core risks are less predictable and are more difficult to define and measure. The Bank has a low risk appetite for core risks and mitigates these risks through robust internal controls and processes.

### **OPERATIONAL RISK**

**Operational risk is the risk of loss, resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risk exists in some form within each of the Group's business and support activities, and can result in financial loss, regulatory sanctions and damage to the Group's reputation. These losses can be catastrophic and as such require close monitoring. To this end, the Group has policies, processes and assessment methodologies to ensure that operational risks are identified and managed and supported by robust controls.**

The Operational Risk function within the Group's risk management unit oversees the identification, assessment, monitoring and analysis of operational risks, and reports loss events. Oversight of the Group's non-financial risks is supported by a Non-Financial Risk and Internal Controls Committee chaired by the Group's Chief Risk Officer.

## **TECHNOLOGY, INFORMATION AND CYBER SECURITY RISK**

**Information Technology (IT) risk is the likelihood of failures or deficiencies related to the IT environment that may result in loss or other negative impact to the Group. Cybersecurity risk is a sub-discipline of IT risk, and refers to the protection of information assets by addressing threats to information processed, stored, and transported by internetworked information systems.**

The continued increase in Technology, Information and Cyber Security Risks impacts financial institutions and other businesses in Jamaica and globally. The continuous evolution of, and access to various technologies have facilitated the increase in volumes and the sophistication level of the ever lurking threats. The era of digitization has led to the development and deployment of mobile and internet banking platforms. These changes simplify transactions for the Group's customers, and facilitate the receipt of leading applications, processes and services from third parties. However, they can be sources of attacks, breaches or other compromises. Incidences like these can result in disruption to operations, misappropriation or unauthorized release of personally identifiable information (PII), fines, sanctions, and reputational damage. In order to protect key systems and critical assets, the Group proactively monitors and manages these potential risks and constantly reviews and refines programmes as new threats emerge. The Group also trains and sensitizes employees and customers about the increasing levels of security threats faced on a daily basis. Our employees complete mandatory annual training around cyber security. These trainings are facilitated through various channels such as internal and external workshops, online lectures and presentations. Awareness programmes for our customers are delivered by appropriate digital channels and through bulletins and print media. These programmes are geared towards educating our customers about best practices, dos and don'ts. As part of our continued efforts to reduce cyber security risks, the necessary measures have been taken to have protection guidelines for our ABMs and vestibules.

### DATA RISK

**The risk, whether direct or indirect, to data that is used to support the Group's ability to make informed decisions and develop accurate reporting and analytics for the Group, including the Board, senior management and regulators, or for customer facing and/or marketing purposes. These risks include data management, data taxonomy, metadata breaches or data that is incomplete, inaccurate, invalid, untimely and/or inaccessible.**

To ensure robust governance and oversight, the Group has a Data Governance Framework and policy which ensures that the outcomes of the data management activities fulfill all regulatory requirements, align to industry best practices, and enable the Group to manage the key components of data governance used to support decision-making.

### ENVIRONMENTAL RISK

**The risk that environmental concerns involving the Group or its customers could affect the Bank's financial performance.**

The Group's Environmental Policy outlines key principles that the Group uses when managing matters relating to potential or emerging environmental risks and considerations. The Environmental Policy instructs lending practices, supplier agreements, the management of real estate holdings, and external reporting practices. It is complemented with other policies and practices specific to individual business operations.

### 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.**

Scotia Jamaica Life Insurance Company (SJLIC), the Group's insurance subsidiary, engages in insurance underwriting activity. These activities are guided by an Insurance Risk Policy and Insurance Risk Management Framework which influences and guides SJLIC in its governance and risk management practices. SJLIC's Board of Directors provide oversight and approval of the SJLIC's insurance risk policies and risk appetite statement.

### REPUTATIONAL RISK

**The risk that negative publicity regarding the Group'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.**

The Group's Reputational Risk Policy, and applicable procedures are used to manage suitability risk, reputational and legal risk specific to structured finance transactions. Throughout the enterprise, reputational risks are managed and controlled by the use of codes of conduct, governance practices and risk management programmes, policies, procedures and training. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Group's Code of Conduct, and in a manner which minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public, Corporate Affairs and Compliance departments are geared towards the management of reputational risk.

### STRATEGIC RISK

**The risk that the enterprise, business lines or corporate functions will make strategic choices that are poorly executed and or ineffective, or insufficiently resilient to changes in the business environment.**

The ultimate responsibility for the oversight of strategic risks lies with the Board of Directors. On an annual basis, the Group engages in its robust strategic planning and approval process to formulate its strategic objectives. On an ongoing basis, Heads of Business Lines and Control Functions identify, manage, and assess the internal and external risks which could impede the achievement, or progress of strategic imperatives. The executive management team meets regularly to evaluate the effectiveness of the Group's strategic plan, and where necessary make amendments.

# Shareholdings

SCOTIA GROUP JAMAICA LIMITED – AS AT OCTOBER 31, 2020

## Top Ten Largest Shareholders\*

Rank	SHAREHOLDER	Holdings*
1	SCOTIABANK CARIBBEAN HOLDINGS LIMITED	2,233,403,384
2	SAGICOR POOLED EQUITY FUND	63,241,902
3	NATIONAL INSURANCE FUND	57,924,069
4	SJIML A/C 3119	55,725,439
5	RESOURCE IN MOTION	31,000,000
6	NCB INSURANCE CO. LTD A/C WT109	24,291,176
7	GRACEKENNEDY PENSION FUND CUSTODIAN LTD	23,080,094
8	ATL GROUP PENSION FUND TRUSTEES NOMINEE LTD	16,078,432
9	SIJL A/C 560-03	14,393,421
10	SAGICOR SELECT FUNDS LIMITED - (CLASS B' SHARES) FINANCIAL	13,698,986

\*As at 31 October 2020

## Shareholdings of Directors, Senior Managers and Connected Parties\*

Directors	Total Shareholdings (Units)	Direct (Units)	Connected Parties (Units)
ALEXANDER, BARBARA ANN	108,000	108,000	0
CRAWFORD, ERIC	53,636	45,000	8,638
FOWLER, ANGELA	47,760	0	47,760
HALL, JEFFREY MCGOWAN	40,000	0	40,000
HART, ANTONY MARK	24,960	24,960	0
KING, BRENDAN	0	0	0
NOEL, DAVID	40,000	0	40,000
MCCONNELL, WILLIAM DAVID	265,248	0	265,248
REID, LESLIE	0	0	0
RICHARDS, AUDREY	12,000	12,000	0
SMITH, EVELYN	0	0	0
<b>Senior Managers</b>			
ANDERSON, YVETT	135,727	81,604	54,123
BENNETT-EASY, MAKEBA	0	0	0
BRIGHT, ALSTON CARL	320,598	203,548	117,050
BUCKNOR, DANE	19,170	19,170	0
DANIEL, KIYOMI	0	0	0
DAVIES, TRICIA	373	373	0
FORBES-PATRICK, YANIQUE	2,000	0	2,000
FRASER, RICHARD	0	0	0
GAUDET, MARCIA	0	0	0
GAYLE, PERRIN	2,000	0	2,000
HARVEY, VINCENT AGUSTUS	18,227	12,327	5,900
HEYWOOD, NADINE	19,886	19,886	0
MAIR, HORACE CRAIG	94,322	92,322	2,000
MCLEGGON, MARCETTE	268,573	268,573	0
NELSON, MORRIS	643	643	0
SPENCE, DEBRA	0	0	0
STOKES, ADRIAN	0	0	0
SYLVESTER, COURTNEY A.	419,613	257,353	162,260
TUGWELL HENRY, AUDREY	29,996	0	29,996
WHITE, GARY-VAUGHN	148,402	148,402	0
WHITE, NAADIA	9,292	9,292	0
WILKIE-CHANNER, SHELEE NADINE	172,396	151,348	21,048
WRIGHT, MICHELLE	90,990	90,990	0

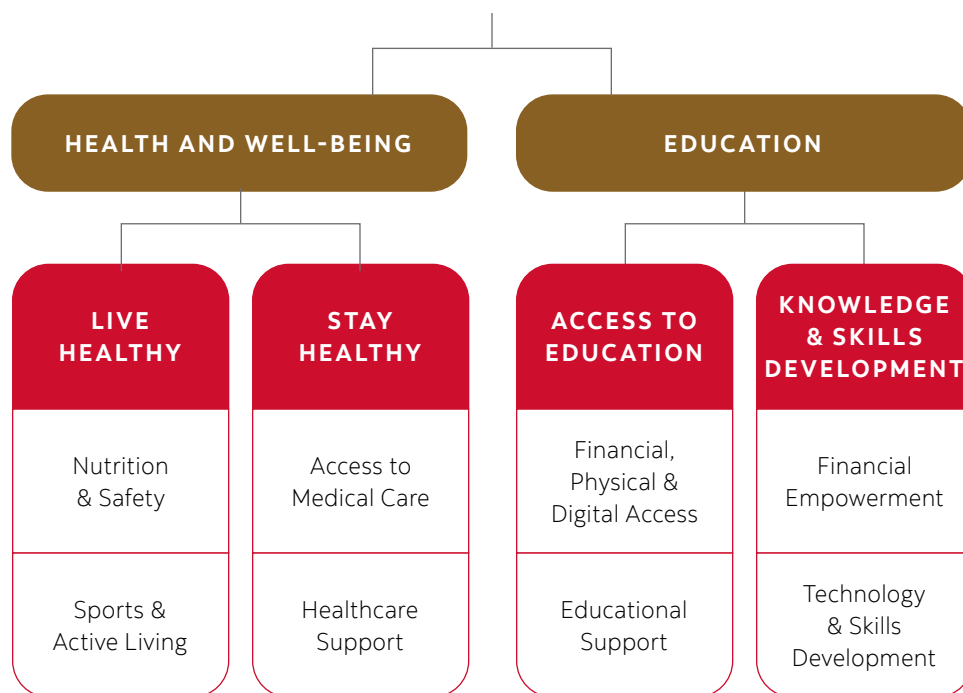
\*As at 31 October 2020

# Scotiabank in the Community





## Young People in the Community



## Supporting Our Communities

### YOUTH SPORTS

The second staging of the Scotiabank Concacaf Next Play Academy and Cup ran from October to December 2019. Over 2,000 boys and girls aged 10 to 11 participated in the training academy and competition which featured a total of 224 schools within the Caribbean. In Jamaica, 64 schools competed in the tournament which also provided training for coaches. In the end, the 2019 Champions- May Pen Primary School, received over \$2.2 million in gears and infrastructural upgrades to their sports facilities.

### NUTRITION FOR LEARNING

As part of our long-standing commitment to our students and schools, the Bank continued support for the ongoing Nutrition for Learning programme. As a special initiative, a training seminar for administrators and canteen staff of schools enrolled in the Programme was hosted with the aim of increasing the nutritional content of school meals. Some 34 schools participated in the seminar where well-known chef, Jacqui Tyson provided guidance on the creation of healthy, balanced meals. Additionally, financial education presentations were made by Scotiabank advisors to assist the educators with their personal financial planning. Financial donations totaling \$21.5 million were made towards the schools' breakfast programmes.



## NATIONAL COVID-19 RESPONSE

Due to the onset of the novel coronavirus in Jamaica, the philanthropic focus quickly shifted in response to the crisis. The Bank responded immediately and provided assistance to various local charitable and non-profit organizations, which directly and indirectly- impact thousands of Jamaicans across the island.

## HEALTHCARE

A commitment in the form of a J\$15 million donation towards the purchase of ventilators for the University Hospital of the West Indies was made through a corporate initiative organised by the Private Sector Organization of Jamaica (PSOJ). A further J\$700,000 was also donated directly to the Hospital to purchase a Flow Nasal Oxygen System. These donations supported Jamaica's primary response to the virus by bolstering and improving the local healthcare system's ability to assist critically-ill patients.

In support of Jamaican ingenuity in times of crisis, the Group also made a donation of J\$700,000 via the Jamaica Social Stock Exchange (JSSE) to support the work of the Mona Tech Engineering Limited- an arm of the Faculty of Engineering at UWI Mona, which has been working to repair ventilators and other bio-medical equipment in light of the COVID-19 pandemic.

## EDUCATION

Following our contributions to shore up the national health response, the Bank then moved to assist educational institutions as they re-imagined a 'new normal' in a sector significantly affected by the virus.

Scotiabank partnered with the United Way of Jamaica through a \$6.6 million donation to assist early childhood institutions in underserved communities. The funds donated provided sanitisation materials, purchased printers and paper for disseminating school lessons to vulnerable students who were unable to access classes online.

In order to support the eventual reopening of schools, donations totalling J\$2.1 million were also made via UNICEF to assist schools in rural communities with the procurement of hand washing stations that will help mitigate the spread of the virus.

The Scotiabank Foundation also continued its scholarship payments to over 50 students through the ongoing ScotiaFoundation Shining Star Scholars Programme.





Scotiabank donated \$15 million to the University Hospital of the West Indies to purchase new ventilators that will assist with the care of patients with respiratory illnesses and support the national response to the COVID-19 health crisis.

# Consolidated Financial Statements

of Scotia Group Jamaica Limited



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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 separate financial statements of Scotia Group Jamaica Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 62 to 148 which comprise the Group's and the Company's statements of financial position as at October 31, 2020, 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, 2020, 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 International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG, a Jamaican partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

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

Nigel R. Chambers  
Nyssa A. Johnson  
W. Gilhan C. de Mel

Wilbert A. Spence  
Rochelle N. Stephenson  
Sandra A. Edwards



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### Report on the Audit of the Financial Statements (continued)

#### 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. Expected credit losses

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
Loans, net of allowance for expected credit losses (ECL), represent 40% or \$221 billion of the Group's total assets and financial investments subject to ECL represent 23% or \$129 billion of the Group's total assets. Allowance for ECL on loans of \$8 billion and a charge of \$5.8 billion has been recognised by the Group in respect of loans and other financial assets. The estimation of ECL on financial assets requires management to make significant judgements to determine the probabilities of default, exposures at the date of default and the expected losses in the event of default. Management is also required to make judgements about future economic scenarios and their impact on expected credit losses.	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none"> <li>• Testing controls over the Group's impairment process including: <ul style="list-style-type: none"> <li>- Controls over the completeness and accuracy of the data flows between source systems and the ECL models with the assistance of our Information Technology Specialists.</li> <li>- Management's control over selection of macro-economic variables.</li> <li>- Management's validation and/or performance monitoring of key inputs in the models and parameters i.e. Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD), Expected Lifetime (ELT) and Significant Increase in Credit Risk (SIR).</li> <li>- Management's evaluation of the actual ECL results.</li> </ul> </li> </ul>



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### Report on the Audit of the Financial Statements (continued)

#### Key Audit Matters (continued)

##### 1. Expected credit losses (continued)

<i>The key audit matter (continued)</i>	<i>How the matter was addressed in our audit (continued)</i>
<p>The economic impact of COVID-19 on financial assets has resulted in increased judgement in the following:</p> <ul style="list-style-type: none"> <li>- The identification of significant increase in credit risk, which now includes COVID-19 related qualitative factors.</li> <li>- The incorporation of forward-looking information, reflecting a range of possible future economic conditions which are highly uncertain.</li> </ul> <p>The combination of estimates and judgements increases the risk that management's estimate could be materially misstated.</p> <p><i>[see notes 3(o), 4 and 24 of the financial statements]</i></p>	<p>Our procedures in this area included the following (continued):</p> <ul style="list-style-type: none"> <li>• With the assistance of our Financial Risk Management specialists: <ul style="list-style-type: none"> <li>- Reviewing the key parameters i.e. PD, LGD, EAD, ELT and SIR and macro-economic variables, scenarios and probabilities used in determining ECL;</li> <li>- Evaluating the methodology and the reasonableness and appropriateness of the PD, LGD, EAD ELT, SIR parameters;</li> <li>- Evaluating macro-economic variables and scenarios used in determining the ECL;</li> <li>- Recalculating a sample of ECL calculations and related inputs; and</li> <li>- Assessing the qualitative adjustments or overlays applied to the ECL.</li> </ul> </li> <li>• Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to credit risk and measurement of allowances for ECL.</li> </ul>





## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### Report on the Audit of the Financial Statements (continued)

#### Key Audit Matters (continued)

##### 2. Fair value of investments

<i>The key audit matter (continued)</i>	<i>How the matter was addressed in our audit (continued)</i>
<p>Investment securities measured at fair value represent 23% of total assets of the Group. The valuation of the Group's investments requires significant estimation, as quoted prices are not 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.</p> <p>Management used valuation techniques which require inputs such as market yields obtained from established yield curves.</p> <p>The COVID-19 pandemic has resulted in volatility of prices in various markets, the uncertainty of which has increased estimation risk for prices used in determining fair values. This could result in estimated fair values that are materially different from actual transaction values.</p> <p><i>[see notes 3(c), 4, 21, 25 and 48 of the financial statements]</i></p>	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none"> <li>• Assessing and testing the design and operating effectiveness of the Group's controls over the determination and computation of fair values.</li> <li>• Challenging the reasonableness of yields/prices by comparing to independent third party pricing sources.</li> <li>• Assessing the reasonableness of significant assumptions used by such third-party pricing sources.</li> <li>• Involving our own valuation specialists to determine/obtain yields/prices of specific securities and comparing these to management's estimates.</li> <li>• Assessing the adequacy of the disclosures, including the degree of estimation involved in determining fair values.</li> </ul>



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### Report on the Audit of the Financial Statements (continued)

#### Key Audit Matters (continued)

#### 3. Valuation of policyholders' liabilities

<i>The key audit matter (continued)</i>	<i>How the matter was addressed in our audit (continued)</i>
<p>Policyholders' liabilities represent 10% of the Group's total liabilities.</p> <p>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 premium persistency as key inputs in estimating these actuarially determined liabilities.</p> <p>The combination of assumptions and judgements increases the risk that management's estimate could be materially misstated.</p> <p><i>[see notes 3(j), 4, 38, and 47(e), of the financial statements]</i></p>	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none"> <li>• Testing the policy master file for completeness and accuracy of the underlying data used by management as inputs to the actuarial valuation.</li> <li>• 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.</li> <li>• Assessing the objectivity, qualification, and experience of management's actuarial expert.</li> <li>• Involving our own actuarial specialist to assess whether the liabilities as determined by management's actuarial expert, fall within a reasonable range of our 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 systems, methodologies and practices.</li> <li>• Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to insurance risk.</li> </ul>



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### Report on the Audit of the Financial Statements (continued)

#### Key Audit Matters (continued)

#### 4. Valuation of retirement benefits asset and obligations

<i>The key audit matter (continued)</i>	<i>How the matter was addressed in our audit (continued)</i>
<p>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.</p> <p>The valuations are considered to be a significant risk, as given the size of the asset and liabilities, small changes in the assumptions can have a material financial impact on the Group's financial statements. The key assumptions involved in calculating retirement benefit asset and liabilities are discount rates, inflation and future increases in salaries and pensions.</p> <p>The use of significant assumptions increases the risk that management's estimate can be materially misstated.</p> <p><i>[see notes 3(u), 4 and 30 of the financial statements]</i></p>	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none"> <li>• Testing employee data provided by management to the actuarial expert.</li> <li>• Comparing the discount and the inflation rates used to independent sources.</li> <li>• Recomputing interest income and cost associated with retirement benefits.</li> <li>• Testing of controls over the fair value computation of the scheme's assets</li> <li>• Involving our own actuarial specialist to review assumptions used by management's actuarial expert.</li> <li>• Assessing whether disclosures in the financial statements are appropriate in respect of the Group's retirement benefit arrangements.</li> </ul>



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### **Report on the Audit of the Financial Statements (continued)**

#### *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.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### **Report on the Audit of the Financial Statements (continued)**

#### *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 60-61, 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 Rochelle Stephenson.

Chartered Accountants  
Kingston, Jamaica

December 11, 2020



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 (CONTINUED)

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

### **Appendix to the Independent Auditors' Report (continued)**

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, actions taken to eliminate threats or safeguards applied.

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.

**CONSOLIDATED STATEMENT OF REVENUE AND EXPENSES**

Year ended October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>Net interest income and other revenue</b>			
<b>Net interest income, calculated using the effective interest method</b>			
Interest from loans and deposits with banks		23,248,331	23,203,128
Interest from securities		<u>3,980,530</u>	<u>4,525,460</u>
Total interest income	7	27,228,861	27,728,588
Interest expense	7	<u>( 2,371,257)</u>	<u>( 2,609,532)</u>
Net interest income		24,857,604	25,119,056
Expected credit losses		<u>( 5,845,181)</u>	<u>( 2,595,985)</u>
Net interest income after expected credit losses		<u>19,012,423</u>	<u>22,523,071</u>
<b>Other revenue</b>			
Fee and commission income	8	15,555,610	16,033,300
Fee and commission expense	8	<u>( 8,397,042)</u>	<u>( 7,928,559)</u>
		7,158,568	8,104,741
Net gains on foreign currency activities	9(a)	6,845,381	6,953,520
Net gains on financial assets	9(b)	940,873	1,477,020
Insurance revenue	10	3,009,412	3,302,198
Other revenue	11	<u>1,230,755</u>	<u>220,891</u>
Total other revenue		<u>19,184,989</u>	<u>20,058,370</u>
		<u>38,197,412</u>	<u>42,581,441</u>
<b>Expenses</b>			
Salaries, pensions and other staff benefits	12	10,625,082	11,143,903
Property expenses, including depreciation		2,411,229	2,131,161
Amortisation of intangible assets	29	117,562	154,764
Asset tax		1,197,510	1,134,145
Other operating expenses		<u>10,448,941</u>	<u>9,534,744</u>
	13	<u>24,800,324</u>	<u>24,098,717</u>
<b>Profit before taxation</b>	14	13,397,088	18,482,724
<b>Taxation</b>	15	<u>( 4,345,041)</u>	<u>( 5,292,670)</u>
<b>Profit for the year attributable to stockholders of the Company</b>		<u>9,052,047</u>	<u>13,190,054</u>
<b>EARNINGS PER STOCK UNIT (expressed in \$)</b>			
<b>attributable to stockholders of the Company</b>	16	<u>2.91</u>	<u>4.24</u>

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



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Year ended October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>Profit for the year</b>		<u>9,052,047</u>	<u>13,190,054</u>
<b>Other comprehensive income:</b>			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan asset and obligations	30(a)(vi) & (b)(iii)	(16,843,301)	8,136,799
Taxation	37(a)	<u>5,614,435</u>	<u>( 2,712,266)</u>
		<u>(11,228,866)</u>	<u>5,424,533</u>
Items that are or may be reclassified to profit or loss:			
Unrealised gains on investment securities		761,775	174,167
Realised gains on investment securities		( 778,361)	( 697,931)
Foreign operations – foreign currency translation		11,698	18,341
Expected credit losses on investment securities		<u>( 56,784)</u>	<u>( 87,963)</u>
		( 61,672)	( 593,386)
Taxation	37(a)	<u>14,177</u>	<u>82,589</u>
		<u>( 47,495)</u>	<u>( 510,797)</u>
Other comprehensive (loss)/income, net of tax		<u>(11,276,361)</u>	<u>4,913,736</u>
<b>Total comprehensive (loss)/income attributable to stockholders of the Company</b>		<u>( 2,224,314)</u>	<u>18,103,790</u>

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>ASSETS</b>			
<b>Cash resources</b>			
Cash and balances at Bank of Jamaica	17	68,539,905	70,052,340
Government and bank notes other than Jamaican	20	1,634,969	1,431,305
Due from other banks	18	43,513,493	37,072,701
Accounts with parent and fellow subsidiaries	19	<u>27,568,399</u>	<u>26,442,800</u>
	20	<u>141,256,766</u>	<u>134,999,146</u>
<b>Financial assets at fair value through profit or loss</b>	21	<u>3,685,340</u>	<u>3,261,577</u>
<b>Pledged assets</b>	22	<u>17,179,792</u>	<u>15,670,497</u>
<b>Loans, net of allowance for credit losses</b>	23	<u>220,726,834</u>	<u>205,625,384</u>
<b>Investment securities</b>	25	<u>116,397,816</u>	<u>119,465,785</u>
<b>Government securities purchased under resale agreements</b>	26	<u>1,100,871</u>	<u>600,518</u>
<b>Other assets</b>			
Customers' liabilities under acceptances, guarantees and letters of credit		13,041,700	13,494,138
Taxation recoverable		2,675,632	2,932,659
Sundry assets	27	2,597,940	2,516,305
Property, plant and equipment	28	8,558,323	5,827,844
Goodwill and intangible assets	29	668,093	785,655
Retirement benefits asset	30(a)	28,242,497	43,704,650
Deferred taxation	37(b)	<u>149,744</u>	<u>117,518</u>
		<u>55,933,929</u>	<u>69,378,769</u>
		<u>556,281,348</u>	<u>549,001,676</u>

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>LIABILITIES</b>			
Deposits by the public	31	336,660,438	312,968,147
Due to other banks and financial institutions	32	3,567,722	7,127,995
Due to ultimate parent company	33	881,034	2,014,202
Due to fellow subsidiaries	34	<u>264,384</u>	<u>334,678</u>
		<b>341,373,578</b>	<b>322,445,022</b>
<b>Other liabilities</b>			
Cheques and other instruments in transit	20	2,957,038	3,542,628
Acceptances, guarantees and letters of credit		13,140,840	13,606,718
Capital management and government securities funds	35	19,157,775	20,291,757
Other liabilities	36	11,306,987	6,839,399
Taxation payable		710,833	1,293,182
Deferred tax liabilities	37(b)	7,037,160	13,082,092
Retirement benefit obligations	30(b)	<u>4,541,887</u>	<u>4,646,759</u>
		<b>58,852,520</b>	<b>63,302,535</b>
<b>Policyholders' liabilities</b>	38	<u>45,299,616</u>	<u>45,140,043</u>
<b>EQUITY</b>			
Share capital	39	6,569,810	6,569,810
Reserve fund	40	3,249,976	3,249,976
Retained earnings reserve	41	45,891,770	45,891,770
Capital reserve	42	11,340	11,340
Cumulative remeasurement gains from investment securities	43	857,473	916,666
Loan loss reserve	44	220,791	2,304,057
Other reserves	45	9,964	9,964
Translation reserve		6,614	( 5,084)
Unappropriated profits		<u>53,937,896</u>	<u>59,165,577</u>
<b>Total equity</b>		<b>110,755,634</b>	<b>118,114,076</b>
<b>Total equity and liabilities</b>		<b>556,281,348</b>	<b>549,001,676</b>

The financial statements on pages 62 to 148 were approved for issue by the Board of Directors and signed on its behalf on December 9, 2020 by:

  
 \_\_\_\_\_ Director  
 Jeffrey Hall

  
 \_\_\_\_\_ Director  
 Eric Crawford

  
 \_\_\_\_\_ Director  
 David Root

  
 \_\_\_\_\_ Secretary  
 Richard Fraser

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

**Attributable to equity holders of the Company**

	Share capital	Reserve fund	Retained earnings reserve	Capital reserve	result from investment securities	Loan loss reserve	Other reserves	Translation reserves	Unappropriated profits	Total
<b>Balances at November 1, 2018</b>	<b>6,569,810</b>	<b>3,249,976</b>	<b>37,891,770</b>	<b>11,340</b>	<b>1,445,804</b>	<b>2,377,843</b>	<b>9,964</b>	<b>(23,425)</b>	<b>63,163,923</b>	<b>114,697,005</b>
Profit for the year	-	-	-	-	-	-	-	-	<b>13,190,054</b>	<b>13,190,054</b>
Other comprehensive income:										
Remeasurement of retirement benefit plan/obligations	-	-	-	-	-	-	-	-	5,424,533	5,424,533
Foreign currency translation	-	-	-	-	-	-	-	18,341	-	18,341
Unrealised losses on investments, net of taxes and provisions	-	-	-	-	( 14,952)	-	-	-	-	( 14,952)
Realised gains on investment securities, net of taxes	-	-	-	-	( 514,186)	-	-	-	-	( 514,186)
Total other comprehensive income	-	-	-	-	( 529,138)	-	-	-	5,424,533	4,913,736
Total comprehensive income	-	-	-	-	( 529,138)	-	-	18,341	5,424,533	4,913,736
Transfer from loan loss reserve	-	-	-	-	( 529,138)	-	-	18,341	18,614,587	18,103,790
Transfer to retained earnings reserve	-	-	-	-	-	( 73,786)	-	-	73,786	-
Transactions with owners of the Company:	-	-	8,000,000	-	-	-	-	-	( 8,000,000)	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Net movement for the year	-	-	8,000,000	-	-	( 73,786)	-	-	(14,686,719)	(14,686,719)
<b>Balances at October 31, 2019</b>	<b>6,569,810</b>	<b>3,249,976</b>	<b>45,891,770</b>	<b>11,340</b>	<b>916,666</b>	<b>2,304,057</b>	<b>9,964</b>	<b>( 5,084)</b>	<b>59,165,577</b>	<b>118,114,076</b>
Profit for the year	-	-	-	-	-	-	-	-	<b>9,052,047</b>	<b>9,052,047</b>
Other comprehensive income:										
Remeasurement of retirement benefit plan/obligations	-	-	-	-	-	-	-	-	(11,228,866)	( 11,228,866)
Foreign currency translation	-	-	-	-	-	-	-	11,698	-	11,698
Unrealised losses on investments, net of taxes and provisions	-	-	-	-	483,758	-	-	-	-	483,758
Realised gains on investment securities, net of taxes	-	-	-	-	( 542,951)	-	-	-	-	( 542,951)
Total other comprehensive income	-	-	-	-	( 59,193)	-	-	11,698	(11,228,866)	(11,276,361)
Total comprehensive income	-	-	-	-	( 59,193)	-	-	11,698	( 2,176,819)	( 2,224,314)
Transfer from loan loss reserve	-	-	-	-	( 59,193)	-	-	11,698	2,083,266	-
Transactions with owners of the Company:	-	-	-	-	-	(2,083,266)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Net movement for the year	-	-	-	-	-	-	-	-	( 5,134,128)	( 5,134,128)
<b>Balances at October 31, 2020</b>	<b>6,569,810</b>	<b>3,249,976</b>	<b>45,891,770</b>	<b>11,340</b>	<b>857,473</b>	<b>220,791</b>	<b>9,964</b>	<b>6,614</b>	<b>53,937,896</b>	<b>110,755,634</b>

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>Cash flows from operating activities</b>			
Profit for the year		9,052,047	13,190,054
Adjustments for:			
Taxation charge	15	4,345,041	5,292,670
Depreciation	28	766,328	553,190
Amortisation of right of use assets	28	186,187	-
Amortisation of intangible assets	29	117,562	154,764
Expected credit losses		6,470,352	3,312,660
Gain on sale of property, plant and equipment	11	( 3,083)	( 185,933)
Impairment of intangible assets	29	-	21,495
Increase in retirement benefits asset/obligations, net		( 1,378,799)	( 1,016,854)
Gain on extinguishment of liability	11	( 1,177,215)	-
		18,378,420	21,322,046
Interest income	7	(27,228,861)	(27,728,588)
Interest expense	7	<u>2,371,257</u>	<u>2,609,532</u>
		( 6,479,184)	( 3,797,010)
Changes in operating assets and liabilities			
Loans		(20,314,491)	(27,564,790)
Deposits by the public		22,588,918	21,538,375
Policyholders' liabilities		159,573	( 152,286)
Sundry assets, net		( 81,723)	( 88,211)
Other liabilities, net		3,196,615	402,622
Due to parent company and fellow subsidiaries		( 1,189,153)	( 1,129,504)
Accounts with parent and fellow subsidiaries		( 2,537,403)	( 2,067,568)
Financial assets at fair value through profit or loss		( 417,745)	( 3,224,853)
Guarantees and acceptances, net		-	1,322
Taxation recoverable		257,028	558,280
Retirement benefits asset/obligations		( 107,221)	( 114,366)
Amounts due to other banks and financial institutions		( 2,376,061)	309,901
Statutory reserves at Bank of Jamaica		3,250,342	5,955,828
Securities sold under repurchase agreements		-	( 30,744)
		( 4,050,505)	( 9,403,004)
Interest received		25,790,330	28,007,909
Interest paid		( 2,394,409)	( 2,650,886)
Taxation paid		<u>( 5,371,086)</u>	<u>( 4,622,541)</u>
Net cash provided by operating activities (carried forward to page 68)		<u>13,974,330</u>	<u>11,331,478</u>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>Cash flows from operating activities</b>			
(brought forward from page 67)		<u>13,974,330</u>	<u>11,331,478</u>
<b>Cash flows from investing activities</b>			
Investment securities		3,170,429	14,528,339
Pledged assets		( 961,140)	7,429,802
Proceeds from disposal of property, plant and equipment		3,455	225,604
Lease payment right of use assets	36(d)	( 200,109)	-
Purchase of property, plant and equipment	28	( 2,241,280)	( 1,116,807)
Net cash (used)/provided by investing activities		<u>( 228,645)</u>	<u>21,066,938</u>
<b>Cash flows from financing activity</b>			
Dividends paid to stockholders	53	( 5,134,128)	(14,686,719)
Net cash used in financing activity		<u>( 5,134,128)</u>	<u>(14,686,719)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>3,432,427</u>	<u>4,884,146</u>
Net increase in cash and cash equivalents		12,043,984	22,595,843
Cash and cash equivalents at beginning of year		<u>93,450,557</u>	<u>70,854,714</u>
<b>Cash and cash equivalents at end of year</b>	20	<u>105,494,541</u>	<u>93,450,557</u>

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

**STATEMENT OF REVENUE AND EXPENSES**

Year ended October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>Net interest income calculated using the effective interest method</b>			
Interest from deposit with banks	7	<u>99,267</u>	<u>280,932</u>
Net gains on foreign currency activities		417,083	1,261,747
Dividend income		<u>3,751,910</u>	<u>8,620,487</u>
		<u>4,168,993</u>	<u>9,882,234</u>
Total income		<u>4,268,260</u>	<u>10,163,166</u>
<b>Expenses</b>			
Asset tax		-	200
Other operating expenses		<u>116,211</u>	<u>46,616</u>
	13	<u>116,211</u>	<u>46,816</u>
Profit before taxation	14	4,152,049	10,116,350
Taxation	15	( 10,775)	( 58,579)
<b>Profit for the year</b>		<u>4,141,274</u>	<u>10,057,771</u>

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


**STATEMENT OF FINANCIAL POSITION**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>ASSETS</b>			
<b>Cash resources</b>			
Accounts with subsidiaries	19	11,484,292	11,079,375
<b>Investment in subsidiaries, at cost</b>		13,029,908	13,029,908
<b>Other assets</b>			
Taxation recoverable		177,014	238,153
		<u>24,691,214</u>	<u>24,347,436</u>
<b>LIABILITIES</b>			
Accrued expenses and other liabilities		1,399,217	12,220
Taxation payable		19,286	61,139
Deferred tax liabilities	37	47	8,559
		<u>1,418,550</u>	<u>81,918</u>
<b>EQUITY</b>			
Share capital	39	6,569,810	6,569,810
Unappropriated profits		<u>16,702,854</u>	<u>17,695,708</u>
Total stockholders' equity		<u>23,272,664</u>	<u>24,265,518</u>
<b>Total liabilities and equity</b>		<u>24,691,214</u>	<u>24,347,436</u>

The financial statements on pages 62 to 148 were approved for issue by the Board of Directors and signed on its behalf on December 9, 2020 by:

  
 \_\_\_\_\_ Director  
 Jeffrey Hall

  
 \_\_\_\_\_ Director  
 Eric Crawford

  
 \_\_\_\_\_ Director  
 David Noel

  
 \_\_\_\_\_ Secretary  
 Richard Fraser

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



**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

Year ended October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	<u>Notes</u>	<u>Share capital</u>	<u>Unappropriated profits</u>	<u>Total</u>
<b>Balances at October 31, 2018</b>		6,569,810	22,324,656	28,894,466
Profit for the year, being total comprehensive income		-	10,057,771	10,057,771
Transaction with owners:				
Dividends paid	53	<u>-</u>	<u>(14,686,719)</u>	<u>(14,686,719)</u>
<b>Balances at October 31, 2019</b>		6,569,810	17,695,708	24,265,518
Profit for the year, being total comprehensive income		-	4,141,274	4,141,274
Transaction with owners:				
Dividends paid	53	<u>-</u>	<u>( 5,134,128)</u>	<u>( 5,134,128)</u>
<b>Balances at October 31, 2020</b>		<u>6,569,810</u>	<u>16,702,854</u>	<u>23,272,664</u>

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

**STATEMENT OF CASH FLOWS**

Year ended October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2020	2019
<b>Cash flows from operating activities</b>			
Profit for the year		4,141,274	10,057,771
Adjustments for:			
Interest income	7	( 99,267)	( 280,932)
Taxation	15	<u>10,775</u>	<u>58,579</u>
		4,052,782	9,835,418
Changes in operating assets and liabilities			
Other assets, net		61,134	34,163
Accounts with fellow subsidiaries		895,028	2,816,573
Other liabilities		<u>1,386,997</u>	<u>3,451</u>
		6,395,941	12,689,605
Interest received		133,312	291,174
Taxation paid		( 61,140)	( 34,160)
Net cash provided by operating activities		<u>6,468,113</u>	<u>12,946,619</u>
<b>Cash flows from financing activity</b>			
Dividends paid, being cash used in financing activity	53	(5,134,128)	(14,686,719)
Net increase/(decrease) in cash and cash equivalents		1,333,985	( 1,740,100)
Cash and cash equivalents at beginning of year		<u>1,587,896</u>	<u>3,327,996</u>
<b>Cash and cash equivalents at end of year</b>	20	<u>2,921,881</u>	<u>1,587,896</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

October 31, 2020 (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 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 and Scotia Investments Jamaica Limited ("SIJL"), which is licensed under the Securities Act.

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

Subsidiaries	Principal Activities	Holding by		Financial Year-End
		Company	Subsidiary	
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%		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

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, 2020.

**2. Changes in significant accounting policies**

Except for the changes below, the Group has consistently applied the accounting policies set out in note 3 to all periods presented in these consolidated financial statements.

The details, nature and effects of the changes are as follows:

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

The Group initially applied IFRS 16 *Leases* from November 1, 2019. A number of other new standards are also effective from November 1, 2019 but they do not have a material effect on the Group's financial statements.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised at November 1, 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements of IFRS 16 have not generally been applied to comparative information.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 2. Changes in significant accounting policies (continued)

#### New, revised and amended standards and interpretations that became effective during the year (continued):

The details, nature and effects of the changes are as follows:

##### (a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 3(x).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after November 1, 2019.

##### (b) As a lessee

As a lessee, the Group leases assets such as property. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at November 1, 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; the Group applied this approach to its property leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of transitional and practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

##### (c) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

The Group has applied IFRS 15, *Revenue from Contracts with Customers*, to allocate consideration in the contract to each lease and non-lease component.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**2. Changes in significant accounting policies (continued)****The details, nature and effects of the changes are as follows (continued):****(d) Impact on transition**

On transition to IFRS 16, the Group recognised additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

	<u>The Group</u>
Right-of-use assets – property, plant and equipment	1,374,120
Lease liabilities	<u>(1,374,120)</u>
	<u>-</u>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at November 1, 2019. The weighted- average borrowing rate applied for the Group was 2.55% (J\$) and 1.66%(US\$).

	<u>The Group</u>
Operating lease commitments at October 31, 2019 as disclosed under IAS 17 in the Group's financial statements	1,802,856
Discounted using the incremental borrowing rate at November 1, 2019	( 445,290)
Extension and termination options and other adjustments	<u>16,554</u>
Lease liabilities recognised at November 1, 2019	<u>1,374,120</u>

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

(i) IFRS 17 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2023, 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 event, (the insured event) adversely affects the policyholder;

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### (a) Basis of preparation (continued)

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

##### (i) IFRS 17 *Insurance Contracts* (continued)

- 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 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 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 2024 financial statements.

(ii) Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

The Group is assessing the impact that the amendments will have on its 2021 financial statements.

(iii) Amendments to IFRS 3, *Business Combinations*, applicable to businesses acquired in annual reporting periods beginning on or after January 1, 2020, provides more guidance on the definition of a business. The amendments include:

- An election to use a concentration test that results in an asset acquisition if substantially all of the fair value of the business is concentrated in single identifiable asset or a group of similar identifiable assets.
- Otherwise, the assessment focuses on the existence of a substantive process. A business consists of inputs and processes applied to those inputs to create outputs.

The Group is assessing the impact that the amendments will have on its 2021 financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****New, revised and amended standards and interpretations that are not yet effective (continued)**

(iv) Amendment to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements as follows:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Group does not expect the amendment to have a significant impact on its 2021 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. The Company and its subsidiaries are collectively referred to as "the Group".

Subsidiaries are those entities controlled by the Company. The Company 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.

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### (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

##### *Interest income*

Interest income is recognised in the statement of revenue and expenses using the effective interest method. The “effective interest rate” is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

When calculating the effective interest rate for financial instruments, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Losses (ECL).

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

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

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

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

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

##### *Fee and commission income*

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

Fee and commission income which includes account service, portfolio management and management advisory fees are recognised as the related services are performed.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(e) Revenue recognition (continued)***Fee and commission income (continued)*

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

Performance obligations and revenue recognition policies:

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition under IFRS 15
Investment banking services	The Group provides investment banking related services, including execution of customers' transactions and maintenance of customers' investments records. Fees are charged when the transactions take place and are based on fixed rates or a fixed percentage of the assets value.	Revenue recognition under IFRS 15 Revenue from investment banking related services is recognised at the point in time when the service is provided.
Portfolio and asset management services	The Group provides portfolio and asset management services to customers. Fees are calculated based on a fixed percentage of the value of the assets and are charged at various time intervals based on the investment agreement but at no time period exceeding twelve months.	Revenue from portfolio and asset management services is recognised over time as the service is provided.

*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.

*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) Insurance contracts***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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(g) Insurance contracts (continued)***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 account balances 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 3(j). These liabilities are adjusted through profit or loss to reflect any changes in the valuation of the liabilities.

**(h) Claims**

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

**(i) 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.

**(j) Policyholders' liabilities**

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 cash flows are discounted to the valuation date to determine the reserves.

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)].

**(k) 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.

*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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(k) Taxation (continued)***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.

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.

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.

**(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.

*Recognition*

The Group initially recognises loans and receivables and deposits on the dates at which it becomes a party to the contractual provisions of the instruments, 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 dates – the dates on which the assets are delivered to or by the Group.

**Classification and measurement, derecognition, and impairment of financial instruments.****Classification and measurement***Classification and measurement of financial assets*

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

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL);
- Elected at fair value through other comprehensive income (Equities only); or
- Designated at FVTPL.

Financial assets include both debt and equity instruments.

*Debt instruments*

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL.

Classification of debt instruments is determined based on:

- (i) The business model under which the asset is held; and
- (ii) The contractual cash flow characteristics of the instrument.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(l) Financial assets and liabilities (continued)***Business model assessment*

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

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale. The Group assesses business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, the Group takes into consideration the following factors:
  - How the performance of assets in a portfolio is evaluated and reported to Group heads and other key decision makers within the Group's business lines;
  - How compensation is determined for the Group's business lines' management that manages the assets;
  - Whether the assets are held for trading purposes i.e., assets that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
  - The risks that affect the performance of assets held within a business model and how those risks are managed; and
  - The frequency and volume of sales in prior periods and expectations about future sales activity.

*Contractual cash flow characteristics assessment*

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

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

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

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

*Debt instruments measured at amortised cost*

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income on these instruments is recognised in interest income using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the financial transaction.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Debt instruments measured at amortised cost (continued)*

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

*Debt instruments measured at FVOCI*

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealised gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognised in non-interest income in the consolidated statement of revenue and expenses. Upon derecognition, realised gains and losses are reclassified from OCI and recorded in non-interest income in the consolidated statement of revenue and expenses on an average cost basis. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the consolidated statement of revenue and expenses. Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to Interest income in the consolidated statement of revenue and expenses using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge for credit losses in the consolidated statement of revenue and expenses. The accumulated allowance recognised in OCI is recycled to the consolidated statement of revenue and expenses upon derecognition of the debt instrument.

*Debt instruments measured at FVTPL*

Debt instruments are measured at FVTPL if assets:

- (i) Are held for trading purposes;
- (ii) Are held as part of a portfolio managed on a fair value basis; or
- (iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognised immediately as part of non-interest income. Realised and unrealised gains and losses are recognised as part of non-interest income in the consolidated statement of revenue and expenses.

*Debt instruments designated at FVTPL*

Financial assets classified in this category are those that have been designated by the Group upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained. Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in non-interest income in the consolidated statement of revenue and expenses.

*Equity instruments*

Equity instruments are classified into one of the following measurement categories:

- Fair value through profit or loss (FVTPL); or
- Elected at fair value through other comprehensive income (FVOCI).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Equity instruments measured at FVTPL*

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in the consolidated statement of revenue and expenses as part of non-interest income. Subsequent to initial recognition the changes in fair value are recognised as part of non-interest income in the consolidated statement of revenue and expenses.

*Equity instruments measured at FVOCI*

At initial recognition, there is an irrevocable option for the Group to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer term investment purposes. This election is made on an instrument-by-instrument basis and is not available for equity instruments that are held for trading purposes.

Gains and losses on these instruments including when derecognised/sold are recorded in OCI and are not subsequently reclassified to the consolidated statement of revenue and expenses. As such, there is no specific impairment requirement. Dividends received are recorded in interest income in the consolidated statement of revenue and expenses. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the consolidated statement of revenue and expenses on sale of the security.

*Classification and measurement of financial liabilities*

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

- Fair value through profit or loss (FVTPL)
- Amortised cost; or
- Designated at FVTPL.

*Financial liabilities measured at FVTPL*

Financial liabilities measured at FVTPL are held principally for the purpose of repurchasing in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Financial liabilities are recognised on a trade date basis and are accounted for at fair value, with changes in fair value and any gains or losses recognised in the consolidated statement of revenue and expenses as part of the non-interest income. Transaction costs are expensed as incurred.

*Financial liabilities measured at amortised cost*

Deposits, subordinated notes and debentures are accounted for at amortised cost. Interest on deposits, calculated using the effective interest method, is recognised as interest expense. Interest on subordinated notes and debentures, including capitalised transaction costs, is recognised using the effective interest method as interest expense.

*Financial liabilities designated at FVTPL*

Financial liabilities classified in this category are those that have been designated by the Group upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial liabilities for which a reliable estimate of fair value can be obtained.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Financial liabilities designated at FVTPL (continued)*

Financial liabilities designated at FVTPL are recorded in the consolidated statement of financial position at fair value. Any changes in fair value are recognised in non-interest income in the consolidated statement of revenue and expenses, except for changes in fair value arising from changes in the Group's own credit risk which are recognised in the OCI. Changes in fair value due to changes in the Group's own credit risk are not subsequently reclassified to the statement of revenue and expenses upon derecognition/extinguishment of the liabilities.

*Determination of fair value*

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

The Group values instruments carried at fair value using quoted market prices, where available. Unadjusted quoted market prices for identical instruments represent a Level 1 valuation. When quoted market prices are not available, the Group maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

Inception gains and losses are only recognised where the valuation is dependent only on observable market data. Otherwise, they are deferred and amortised over the life of the related contract or until the valuation inputs become observable.

IFRS 13 permits a measurement exception that allows an entity to determine the fair value of a group of financial assets and liabilities with offsetting risks based on the sale or transfer of its net exposure to a particular risk (or risks). The Group has adopted this exception through an accounting policy choice. Consequently, the fair values of certain portfolios of financial instruments are determined based on the net exposure of those instruments to particular market, credit or funding risk.

In determining fair value for certain instruments or portfolios of instruments, valuation adjustments or reserves may be required to arrive at a more accurate representation of fair value. These adjustments include those made for credit risk, bid-offer spreads, unobservable parameters, constraints on prices in inactive or illiquid markets and when applicable funding costs.

*Derecognition of financial assets and liabilities**Derecognition of financial assets*

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

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Group transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Group has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Group has retained substantially all of the risks and rewards of ownership.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(l) Financial assets and liabilities (continued)**

Derecognition of financial assets and liabilities (continued)

*Derecognition of financial assets (continued)*

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Group derecognises the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Group retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

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

Transfers of financial assets that do not qualify for derecognition are reported as secured financings in the consolidated statement of financial position.

*Derecognition of financial liabilities*

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

**(m) 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 an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- 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.

**(n) 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.

**(o) Allowance for expected credit losses**

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

- Amortised cost financial assets;
- Debt securities classified as at FVOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(o) Allowance for expected credit losses (continued)***Expected credit loss impairment model (continued)*

The Group's allowance for credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Each expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

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

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

*Measurement of expected credit loss*

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

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

*Forward-looking information*

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

*Macroeconomic factors*

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(o) Allowance for expected credit losses (continued)***Multiple forward-looking scenarios*

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

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

*Assessment of significant increase in credit risk (SIR)*

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

The common assessments for SIR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

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

**Non-retail portfolio** – The Group uses a risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

*Expected life*

When measuring expected credit losses, the Group considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which the Group is exposed to credit risk and how the credit losses are mitigated by management actions.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(o) Allowance for expected credit losses (continued)***Presentation of allowance for credit losses in the statement of financial position*

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: no allowance is recognised in the statement of financial position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income;
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as a deduction from the gross carrying amount.

*Modified financial assets*

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

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

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

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

*Definition of default*

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

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

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

*Write-off policy*

The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Credit card receivables 90 days past due are written-off. In subsequent periods, any recoveries of amounts previously written off are credited to the allowance for expected credit losses in the consolidated statement of revenue and expenses.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(o) Allowance for expected credit losses (continued)***Purchased loans*

All purchased loans are initially measured at fair value on the date of acquisition. As a result no allowance for credit losses would be recorded in the consolidated statement of financial position on the date of acquisition. Purchased loans may fit into either of the two categories: Performing loans or Purchased Credit Impaired (PCI) loans.

Purchased performing loans follow the same accounting as originated performing loans and are reflected in Stage 1 on the date of the acquisition. They will be subject to a 12-month allowance for credit losses.

The fair value adjustment set up for these loans on the date of acquisition is amortised into interest income over the life of these loans.

PCI loans are reflected in Stage 3 and are always subject to lifetime allowance for credit losses. Any changes in the expected cash flows since the date of acquisition are recorded as a charge/recovery for credit losses in the consolidated statement of revenue and expenses at the end of all reporting periods subsequent to the date of acquisition.

**(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) 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.

**(r) 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 an 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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(r) Property, plant and equipment (continued)**

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

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the profit or loss for the year.

**(s) Investment in subsidiaries**

Investments by the Group in subsidiaries are measured at cost less impairment losses in the separate financial statements.

**(t) Goodwill and intangible assets***Intangible assets acquired separately*

Intangible assets acquired separately are measured 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.

*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 measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

*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.

*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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(t) Goodwill and intangible assets (continued)***Goodwill (continued)*

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.

*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.

*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.

*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.

*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.

**(u) Employee benefits**

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

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as an 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(u) Employee benefits (continued)***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 plans. 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 and the fair value of plan assets at the reporting date. 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.

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.

*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.

*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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### (u) Employee benefits (continued)

##### *Equity compensation benefits*

The Group has one Employee Share Ownership Plan (ESOP) for eligible employees, through which it 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 54) 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.

##### *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.

##### *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.

#### (v) 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.

#### (w) Share capital

##### *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.

##### *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.

##### *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.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(x) Leases***Policy applicable from November 1, 2019*

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts coming into effect on or after November 1, 2019.

**(i) As a lessee**

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise,
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(x) Leases (continued)****(i) As a lessee (continued)**

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in other liabilities in the statement of financial position.

**(ii) As a lessor**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of a sub-lease entered into during the current reporting period that resulted in a finance lease classification.

**Short-term leases and leases of low-value assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

***Policy applicable before November 1, 2019******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 interest on the lease obligation, which is charged as an expense and included in profit or loss over the lease period.

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

***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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**3. Summary of significant accounting policies (continued)****(x) Leases (continued)**

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.

**(y) 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.

**(z) 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.

**4. 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.

***Expected credit losses***

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in notes 24 and 47(b), which also set out key sensitivities of the ECL to changes in these elements.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

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

*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 3(j).

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.

*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 funding of the pension plan.

The Group determines the appropriate discount rate at the end of each year; such rate represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considers interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension 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.

*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.

*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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**5. 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.

**6. 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 and mortgages.
- (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 – this 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.

## October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

The Group 2020						
	Banking Corporate and Commercial			Investment Management Services	Insurance Services	Other
	Retail		Treasury			
Net external revenues	20,787,801	8,175,855	7,178,348	2,872,033	4,512,206	516,350
Revenue from other segments	(25,415)	846,654	(932,591)	371,354	(112,389)	-
<b>Total revenues</b>	20,762,386	9,022,509	6,245,757	3,243,387	4,399,817	516,350
Total expenses and credit losses	(19,762,209)	(7,641,909)	(558,078)	(1,372,911)	(1,244,290)	(116,210)
Profit before tax	1,000,177	1,380,600	5,687,679	1,870,476	3,155,527	400,140
Taxation	-	-	-	-	-	-
<b>Profit for the year</b>	-	-	-	-	-	-
Segment assets	140,076,126	110,084,187	180,801,164	39,044,158	59,212,736	24,691,214
Unallocated assets	-	-	-	-	-	-
<b>Total assets</b>	-	-	-	-	-	-
Segment liabilities	188,565,747	175,781,648	-	29,251,277	45,963,939	1,418,550
Unallocated liabilities	-	-	-	-	-	-
<b>Total liabilities</b>	-	-	-	-	-	-
Other segment items:						
Capital expenditure	922,263	1,307,058	-	8,386	3,573	-
Expected credit losses	5,832,486	103,920	(39,632)	(20,957)	(30,636)	-
Depreciation and amortisation	607,860	308,883	5,558	133,501	14,275	-

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**6. Segmental financial information (continued)**

The Group 2019								
	Banking Corporate and			Investment Management Services	Insurance Services	Other	Eliminations	Group
	Retail	Commercial	Treasury					
Net external revenues	18,855,698	8,007,098	8,213,330	3,465,535	5,093,087	1,542,678	-	45,177,426
Revenue from other segments	376,270	1,181,670	(1,785,412)	208,414	70,405	-	(51,347)	-
<b>Total revenues</b>	19,231,968	9,188,768	6,427,918	3,673,949	5,163,492	1,542,678	(51,347)	45,177,426
Total expenses and credit losses	(15,628,961)	(7,778,226)	(565,924)	(1,394,360)	(1,191,925)	(46,816)	(88,490)	(26,694,702)
Profit before tax	3,603,007	1,410,542	5,861,994	2,279,589	3,971,567	1,495,862	(139,837)	18,482,724
Taxation	-	-	-	-	-	-	-	(5,292,670)
<b>Profit for the year</b>	-	-	-	-	-	-	-	<b>13,190,054</b>
Segment assets	136,534,750	91,298,678	178,939,016	37,288,657	58,530,404	24,347,436	(23,999,248)	502,939,693
Unallocated assets	-	-	-	-	-	-	-	46,061,983
<b>Total assets</b>	-	-	-	-	-	-	-	<b>549,001,676</b>
Segment liabilities	171,369,564	173,205,216	-	27,951,890	46,001,589	81,918	(11,200,574)	407,409,603
Unallocated liabilities	-	-	-	-	-	-	-	23,477,997
<b>Total liabilities</b>	-	-	-	-	-	-	-	<b>430,887,600</b>
Other segment items:								
Capital expenditure	678,606	429,768	-	8,433	-	-	-	1,116,807
Expected credit losses	2,251,332	441,007	(64,372)	8,752	(40,734)	-	-	2,595,985
Depreciation and amortisation	376,070	190,902	-	137,588	3,394	-	-	707,954

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**7. Net interest income**

	The Group		The Company	
	2020	2019	2020	2019
Interest income calculated using the effective interest method:				
Deposits with banks and other financial institutions	506,176	1,614,741	99,267	280,932
Investment securities	3,927,829	4,496,361	-	-
Financial assets at fair value through profit or loss	38,489	15,503	-	-
Reverse repurchase agreements	14,211	13,596	-	-
Loans and advances	<u>22,742,156</u>	<u>21,588,387</u>	<u>-</u>	<u>-</u>
	<u>27,228,861</u>	<u>27,728,588</u>	<u>99,267</u>	<u>280,932</u>
Interest expense measured on the effective interest basis:				
Banks and customers	1,101,569	1,211,780	-	-
Repurchase agreements	1,110	56,568	-	-
Policyholders' liabilities	1,220,394	1,322,039	-	-
Other	<u>48,184</u>	<u>19,145</u>	<u>-</u>	<u>-</u>
	<u>2,371,257</u>	<u>2,609,532</u>	<u>-</u>	<u>-</u>
Net interest income	<u>24,857,604</u>	<u>25,119,056</u>	<u>99,267</u>	<u>280,932</u>

**8. Net fee and commission income**

	The Group	
	2020	2019
Fee and commission income:		
Retail banking fees	6,458,734	6,988,831
Credit related fees	1,126,016	1,358,011
Commercial and depository fees	5,388,193	5,608,442
Insurance related fees	269,667	269,014
Other fees	412,805	-
Trust and other fiduciary fees	35,787	40,929
Asset management and related fees	<u>1,864,408</u>	<u>1,768,073</u>
	15,555,610	16,033,300
Fee and commission expenses	<u>( 8,397,042)</u>	<u>( 7,928,559)</u>
	<u>7,158,568</u>	<u>8,104,741</u>

**9. 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	
	2020	2019
Gains on securities held for trading	878,908	1,163,435
Gains on securities at FVOCI	<u>61,965</u>	<u>313,585</u>
	<u>940,873</u>	<u>1,477,020</u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**10. Insurance revenue**

	The Group	
	2020	2019
Gross premiums		
Individual life	1,101,624	1,025,948
Group life	<u>1,237,122</u>	<u>1,803,926</u>
	2,338,746	2,829,874
Reinsurance ceded	( 301)	( 4)
	2,338,445	2,829,870
Changes in actuarial reserves	<u>670,967</u>	<u>472,328</u>
	<u>3,009,412</u>	<u>3,302,198</u>

**11. Other revenue**

	The Group	
	2020	2019
Gain on sale of property, plant and equipment	3,083	185,933
Gain on extinguishment of liability	1,177,215	-
Dividend and other income	<u>50,457</u>	<u>34,958</u>
	<u>1,230,755</u>	<u>220,891</u>

As at October 31, 2020, the Bank entered into an agreement for the settlement of outstanding liabilities totaling \$1,609,054 (Group: \$3,373,691) with another financial institution, and this transaction is expected to close by November 30, 2020, when all obligations have been met.

**12. Salaries, pensions and other staff benefits**

	The Group	
	2020	2019
Wages and salaries	9,575,490	9,692,602
Statutory payroll contributions	878,948	801,027
Other staff benefits	<u>1,549,443</u>	<u>1,667,128</u>
	<u>12,003,881</u>	<u>12,160,757</u>
Post-employment benefits:		
Credit on defined benefit plan [note 30(a)(v)]	( 1,841,420)	( 1,559,843)
Other post-retirement benefits [note 30(b)(ii)]	<u>462,621</u>	<u>542,989</u>
	<u>( 1,378,799)</u>	<u>( 1,016,854)</u>
Total (note 13)	<u>10,625,082</u>	<u>11,143,903</u>

**13. Expenses by nature**

	The Group		The Company	
	2020	2019	2020	2019
Salaries, pension contributions and other staff benefits (note 12)	10,625,082	11,143,903	-	-
Property expenses, including depreciation	2,411,229	2,131,161	-	-
Amortisation and impairment of intangible assets	117,562	176,259	-	-
Systems related expenses	1,933,650	1,696,988	-	-
Insurance claims and benefits	252,443	215,875	-	-
Transportation and communication	969,919	930,548	3,119	2,961
Marketing and advertising	509,325	435,510	-	-
Professional, legal and consultancy fees	443,575	375,814	45,773	39,118
Technical and support services	4,211,605	4,057,710	-	-
Deposit insurance	498,213	466,127	-	-
Stationery	460,148	367,508	939	991
Asset tax	1,197,510	1,134,145	-	200
Licensing and other regulatory fees	276,445	179,221	-	-
Other operating expenses	<u>893,618</u>	<u>787,948</u>	<u>66,380</u>	<u>3,546</u>
	<u>24,800,324</u>	<u>24,098,717</u>	<u>116,211</u>	<u>46,816</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**14. Profit before taxation**

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

	The Group		The Company	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Auditors' remuneration	60,251	58,843	7,900	7,700
Depreciation of property, plant and equipment	766,328	553,190	-	-
Amortisation of right-of-use-assets	186,187	-	-	-
Amortisation and impairment of intangible assets	117,562	176,259	-	-
Directors' emoluments:				
Fees	29,147	32,120	16,428	16,569
Management remuneration	58,654	59,657	-	-
Operating lease rentals	-	<u>430,750</u>	-	-

**15. 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	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current income tax:				
Income tax at 33¼%	3,245,090	3,777,626	-	-
Income tax at 30%	672,242	522,179	-	-
Income tax 25%	871,405	983,137	19,287	61,139
Adjustment for over-provision of prior year's charge	-	( 4,013)	-	-
Deferred income tax [note 37(a)]	( 443,696)	<u>13,741</u>	( 8,512)	( 2,560)
	<u>4,345,041</u>	<u>5,292,670</u>	<u>10,775</u>	<u>58,579</u>

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

	The Group		The Company	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Profit before taxation	<u>13,397,088</u>	<u>18,482,724</u>	<u>4,152,049</u>	<u>10,116,350</u>
Tax calculated at 25%	-	-	1,384,016	2,529,089
Tax calculated at 33¼%	4,465,696	6,160,908	-	-
Adjusted for the tax effects of:				
Different tax regimes applicable to the life insurance and mortgage financing subsidiaries and non-regulated entities	( 228,904)	( 867,990)	-	-
Income not subject to tax	( 102,092)	( 211,782)	( 937,977)	( 2,155,123)
Expenses not deductible for tax purposes	422,599	367,071	-	50
Prior period over provision	-	( 4,013)	-	-
Other charges and allowances	( 212,258)	( 151,524)	( 435,264)	( 315,437)
	<u>4,345,041</u>	<u>5,292,670</u>	<u>10,775</u>	<u>58,579</u>
Effective tax rate	<u>32.43%</u>	<u>28.64%</u>	<u>0.26%</u>	<u>0.58%</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**16. Earnings per stock unit**

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

	<u>2020</u>	<u>2019</u>
Consolidated profit for the year attributable to stockholders of the Company	<u>9,052,047</u>	<u>13,190,054</u>
Weighted average number of ordinary stock units in issue ('000)	<u>3,111,573</u>	<u>3,111,573</u>
Earnings per stock unit (expressed in \$)	<u>2.91</u>	<u>4.24</u>

**17. Cash and balances at Bank of Jamaica**

	<u>The Group</u>	
	<u>2020</u>	<u>2019</u>
Statutory reserves – non-interest bearing (note 20)	28,679,603	31,929,861
Cash in hand and other balances at Bank of Jamaica	<u>39,860,302</u>	<u>38,122,479</u>
	<u>68,539,905</u>	<u>70,052,340</u>

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

<u>Relevant legislation</u>	<u>Entity</u>	<u>Reserve percentage</u>			
		<u>Jamaican</u>		<u>Foreign currency</u>	
		<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Banking Services Act, Section 14(i)	BNSJ	5%	7%	13%	15%
Building Society Regulations Section 31	SJBS	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>

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

**18. Due from other banks**

	<u>The Group</u>	
	<u>2020</u>	<u>2019</u>
Items in course of collection from other banks	232,735	449,885
Placements with other banks	<u>43,280,758</u>	<u>36,622,816</u>
	<u>43,513,493</u>	<u>37,072,701</u>

**19. Accounts with parent and fellow subsidiaries**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**20. Cash and cash equivalents**

	The Group		The Company	
	2020	2019	2020	2019
Cash resources	141,256,766	134,999,146	11,484,292	11,079,375
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 17)	( 28,679,603)	( 31,929,861)	-	-
Cheques and other instruments in transit	( 2,957,038)	( 3,542,628)	-	-
Accounts with parent and fellow subsidiaries greater than ninety days	( 8,562,221)	( 9,457,244)	( 8,562,221)	( 9,457,244)
Expected credit losses	2,272	15,558	-	-
Accrued interest	( 4,255)	( 51,025)	( 190)	( 34,235)
	101,055,921	90,033,946	2,921,881	1,587,896
Add other cash equivalent balances:				
Repurchase agreements less than ninety days (note 26)	1,100,000	600,000	-	-
Pledged assets less than ninety days (note 22)	3,338,620	2,816,611	-	-
	<u>105,494,541</u>	<u>93,450,557</u>	<u>2,921,881</u>	<u>1,587,896</u>
Cash and cash equivalents is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	39,861,149	38,138,037	-	-
Government and bank notes other than Jamaican	1,634,969	1,431,305	-	-
Amounts due from other banks	43,514,918	37,072,701	-	-
Accounts with parent and fellow subsidiaries	19,006,178	16,985,556	2,922,071	1,622,131
Repurchase agreements	1,100,000	600,000	-	-
Pledged assets	3,338,620	2,816,611	-	-
Accrued interest	( 4,255)	( 51,025)	( 190)	( 34,235)
	108,451,579	96,993,185	2,921,881	1,587,896
Cheques and other instruments in transit	( 2,957,038)	( 3,542,628)	-	-
	<u>105,494,541</u>	<u>93,450,557</u>	<u>2,921,881</u>	<u>1,587,896</u>

**21. Financial assets at fair value through profit or loss**

	The Group	
	2020	2019
Government of Jamaica securities	3,366,796	2,858,213
Quoted stocks	-	47,525
Unit trusts	<u>295,369</u>	<u>342,748</u>
	3,662,165	3,248,486
Accrued interest	<u>23,175</u>	<u>13,091</u>
	<u>3,685,340</u>	<u>3,261,577</u>

**22. 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 contracted under terms that are customary for these transactions.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**22. Pledged assets (continued)**

	The Group	
	2020	2019
Capital management and government securities funds	15,349,421	14,003,531
Securities with regulators, clearing houses and other financial institutions	<u>1,830,371</u>	<u>1,666,966</u>
	<u>17,179,792</u>	<u>15,670,497</u>

Included in pledged assets are the following categories of assets:

	The Group	
	2020	2019
Deposits with financial institutions	7,260,848	5,661,943
Government issued securities:		
Fair value through OCI	6,754,847	6,089,986
Amortised cost	281,845	281,845
Loans	889,095	1,606,644
Unitised funds:		
Fair value through profit or loss	<u>1,993,157</u>	<u>2,030,079</u>
	<u>17,179,792</u>	<u>15,670,497</u>

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	
	2020	2019
Debt securities and other investments with an original maturity of less than ninety days (note 20)	<u>3,338,620</u>	<u>2,816,611</u>

**23. Loans, net of allowance for credit losses**

	The Group	
	2020	2019
Business and Government	100,596,111	82,817,333
Personal and credit cards	83,064,221	88,523,414
Residential mortgages	42,598,196	37,336,804
Interest receivable	<u>2,444,589</u>	<u>1,097,773</u>
	228,703,117	209,775,324
Less: Allowance for expected credit losses (note 24)	<u>( 7,976,283)</u>	<u>( 4,149,940)</u>
	<u>220,726,834</u>	<u>205,625,384</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**23. Loans, net of allowance for credit losses (continued)**

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

	The Group	
	<u>2020</u>	<u>2019</u>
Neither past due nor impaired	<u>178,527,387</u>	<u>192,215,332</u>
Past due but not impaired		
Past due 1-30 days	19,922,756	7,465,391
Past due 31-60 days	20,147,122	4,023,020
Past due 61-90 days	<u>2,895,571</u>	<u>1,250,537</u>
	<u>42,965,449</u>	<u>12,738,948</u>
Impaired:		
Past due more than 90 days	<u>4,765,692</u>	<u>3,723,273</u>
Interest receivable	<u>2,444,589</u>	<u>1,097,771</u>
Gross loan portfolio	228,703,117	209,775,324
Less: allowance for credit loss	<u>( 7,976,283)</u>	<u>( 4,149,940)</u>
Loans, net of allowance for credit losses	<u>220,726,834</u>	<u>205,625,384</u>

(ii) Repossessed collateral

In the normal course of business, the security documentation 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.

**24. Expected credit losses on loans**

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

Some of the key drivers include the following:

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**24. Expected credit losses on loans (continued)**

	The Group			
	2020			
	Stage 1	Stage 2	Stage 3	Total
Allowance at beginning of year	1,382,194	1,311,516	1,456,230	4,149,940
Provided during the year	2,064,423	1,650,328	2,630,452	6,345,203
Bad debts written off	-	-	(2,529,884)	(2,529,884)
Foreign exchange movement	( 784,252)	229,649	565,627	11,024
Transfer to/(from) stages				
Stage 1	1,241,811	(1,051,942)	( 189,869)	-
Stage 2	( 363,033)	769,770	( 406,737)	-
Stage 3	( 19,505)	( 652,455)	671,960	-
Allowance at end of year (note 23)	<u>3,521,638</u>	<u>2,256,866</u>	<u>2,197,779</u>	<u>7,976,283</u>
The charge for expected credit losses recognised for the year comprises:				
Provided during the year	2,064,423	1,650,328	2,630,452	6,345,203
Recoveries of bad debts	-	-	( 626,648)	( 626,648)
Expected credit losses reported in profit for the year	<u>2,064,423</u>	<u>1,650,328</u>	<u>2,003,804</u>	<u>5,718,555</u>
	The Group			
	2019			
	Stage 1	Stage 2	Stage 3	Total
Allowance at beginning of year	1,041,780	695,330	1,696,615	3,433,725
Provided during the year	325,902	480,768	2,596,674	3,403,344
Bad debts written off	-	-	(2,691,275)	(2,691,275)
Foreign exchange movement	( 388,659)	594,181	( 201,376)	4,146
Transfer to/(from) stages				
Stage 1	676,166	( 664,701)	( 11,465)	-
Stage 2	( 262,470)	532,301	( 269,831)	-
Stage 3	( 10,525)	( 326,361)	336,886	-
Allowance at end of year (note 23)	<u>1,382,194</u>	<u>1,311,518</u>	<u>1,456,228</u>	<u>4,149,940</u>
The charge for expected credit losses recognised for the year comprises:				
Provided during the year	325,902	480,768	2,596,674	3,403,344
Recoveries of bad debts	-	-	( 716,454)	( 716,454)
Expected credit losses reported in profit for the year	<u>325,902</u>	<u>480,768</u>	<u>1,880,220</u>	<u>2,686,890</u>

Uncollected interest not accrued on loans in default is estimated at \$1,138,340 (2019: \$1,038,713) for the Group.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**24. Expected credit losses on loans (continued)**

The allowance for expected credit losses on transition to IFRS 9 was as follows:

	The Group	
	<u>2020</u>	<u>2019</u>
Allowance based on IFRS	7,976,283	4,149,940
Additional allowance based on BOJ regulations	<u>220,791</u>	<u>2,304,057</u>
	<u>8,197,074</u>	<u>6,453,997</u>

**25. Investment securities**

	The Group	
	<u>2020</u>	<u>2019</u>
Fair value through other comprehensive income		
Unquoted shares	5,105	5,105
Government securities	103,838,353	113,232,627
Bank of Jamaica securities	7,671,817	-
Treasury bills	2,835,496	1,670,268
Corporate bonds	1,254,328	3,888,985
Interest receivable	<u>792,717</u>	<u>668,800</u>
	<u>116,397,816</u>	<u>119,465,785</u>

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of \$90,000 (2019: \$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.

**26. Government securities purchased under resale agreements**

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

	The Group	
	<u>2020</u>	<u>2019</u>
Reverse repurchase agreements with an original maturity of less than 90 days (note 20)	1,100,000	600,000
Interest receivable	<u>871</u>	<u>518</u>
	<u>1,100,871</u>	<u>600,518</u>

The fair value of collateral held pursuant to reverse repurchase agreements is \$1,187,678 (2019: \$630,828).

**27. Sundry assets**

	The Group	
	<u>2020</u>	<u>2019</u>
Accounts receivable and prepayments	426,580	523,122
Deferred charges	1,123,640	1,084,346
Other	<u>1,047,720</u>	<u>908,837</u>
	<u>2,597,940</u>	<u>2,516,305</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

## 28. Property, plant and equipment

	The Group					Total
	Right-of-use on leasehold properties	Freehold land and buildings	Leasehold improvements	Furniture, fixtures, motor vehicles & equipment	Capital work-in- progress	
Cost:						
October 31, 2018	-	4,357,435	523,339	7,190,159	255,799	12,326,732
Additions	-	12,854	1,077	136,640	966,236	1,116,807
Disposals	-	-	( 39,671)	( 8,641)	-	( 48,312)
Transfers	-	89,846	64,337	257,818	( 412,001)	-
October 31, 2019	-	4,460,135	549,082	7,575,976	810,034	13,395,227
Impact of first time application of IFRS 16 (note 2)	1,374,120	-	-	-	-	1,374,120
Additions	46,939	21,824	4,160	81,705	2,133,591	2,288,219
Disposals	( 5,543)	-	-	( 60,159)	-	( 65,702)
Transfers	-	652,359	63,818	454,823	(1,171,000)	-
Translation adjustment	24,558	-	-	-	-	24,558
October 31, 2020	1,440,074	5,134,318	617,060	8,052,345	1,772,625	17,016,422
Depreciation:						
October 31, 2018	-	938,216	489,171	5,595,447	-	7,022,834
Charge for the year	-	93,489	20,939	438,762	-	553,190
Eliminated on disposals	-	-	-	( 8,641)	-	( 8,641)
October 31, 2019	-	1,031,705	510,110	6,025,568	-	7,567,383
Charge for the year	186,187	111,019	32,129	623,180	-	952,515
Eliminated on disposals	( 2,827)	-	-	( 59,788)	-	( 62,615)
Translation adjustment	816	-	-	-	-	816
October 31, 2020	184,176	1,142,724	542,239	6,588,960	-	8,458,099
Net book values:						
October 31, 2020	1,255,898	3,991,594	74,821	1,463,385	1,772,625	8,558,323
October 31, 2019	-	3,428,430	38,972	1,550,408	810,034	5,827,844
October 31, 2018	-	3,419,219	34,168	1,594,712	255,799	5,303,898

## 29. Goodwill and intangible assets

	The Group					Total
	Customer relationships	Contract- based intangibles	License	Goodwill	Computer software	
Cost:						
October 31, 2018, 2019 and 2020	1,382,582	348,987	49,470	136,892	476,574	2,394,505
Amortisation:						
October 31, 2018	1,025,683	71,574	5,333	40,229	289,772	1,432,591
Amortisation for the year	88,492	-	-	-	66,272	154,764
Impairment for the year	-	-	-	21,495	-	21,495
October 31, 2019	1,114,175	71,574	5,333	61,724	356,044	1,608,850
Amortisation for the year	88,492	-	-	-	29,070	117,562
October 31, 2020	1,202,667	71,574	5,333	61,724	385,114	1,726,412

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**29. Goodwill and intangible assets (continued)**

	The Group				
	<u>Customer relationships</u>	<u>Contract-based intangibles</u>	<u>License</u>	<u>Goodwill</u>	<u>Computer software</u>
Net book values:					
October 31, 2020	<u>179,915</u>	<u>277,413</u>	<u>44,137</u>	<u>75,168</u>	<u>91,460</u>
October 31, 2019	<u>268,407</u>	<u>277,413</u>	<u>44,137</u>	<u>75,168</u>	<u>120,530</u>
October 31, 2018	<u>356,899</u>	<u>277,413</u>	<u>44,137</u>	<u>96,663</u>	<u>186,802</u>

**30. 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	
	<u>2020</u>	<u>2019</u>
Defined benefit pension plan (a)	28,242,497	43,704,650
Other post-retirement benefits (b)	( 4,541,887)	( 4,646,759)
	<u>23,700,610</u>	<u>39,057,891</u>

**(a) Defined benefit pension plan**

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

	The Group	
	<u>2020</u>	<u>2019</u>
Present value of funded obligations (iii)	(33,924,123)	(38,055,078)
Fair value of plan assets (iv)	<u>76,713,352</u>	<u>81,759,728</u>
	42,789,229	43,704,650
Limitation of economic benefits	(14,546,732)	-
Asset in the statement of financial position	<u>28,242,497</u>	<u>43,704,650</u>

(ii) Movement in the amount recognised in the statement of financial position:

	The Group	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	43,704,650	34,517,087
Contributions paid	500	500
Pension income recognised in profit or loss (v)	1,841,420	1,559,843
Remeasurement recognised in other comprehensive income (vi)	(17,304,073)	7,627,220
Balance at end of year	<u>28,242,497</u>	<u>43,704,650</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**30. Retirement benefits asset/obligations (continued)****(a) Defined benefit pension plan (continued)**

(iii) Movement in the present value of obligation:

	The Group	
	2020	2019
Balance at beginning of year	(38,055,078)	(36,033,524)
Current service costs	( 846,097)	( 898,563)
Interest cost	( 2,429,646)	( 2,652,894)
Employees' contribution	( 632,992)	( 584,491)
Benefits paid	1,463,616	1,413,413
Actuarial gains arising from:		
Experience adjustments	992,819	32,503
Changes in demographic assumptions	-	( 374,728)
Changes in financial assumptions	5,583,255	1,043,206
Balance at end of year	<u>(33,924,123)</u>	<u>(38,055,078)</u>

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

	The Group	
	2020	2019
Fair value of plan assets at beginning of year	81,759,728	70,550,611
Contributions	633,492	584,991
Benefits paid	( 1,463,616)	( 1,413,413)
Interest income on plan assets	5,284,030	5,256,301
Administrative fees	( 179,106)	( 145,001)
Remeasurement gain on plan assets included in other comprehensive income	( 9,321,176)	6,926,239
Fair value of plan assets at end of year	<u>76,713,352</u>	<u>81,759,728</u>

Plan assets consist of the following:

	The Group	
	2020	2019
Government stocks and bonds	45,663,057	43,741,086
Quoted equities	23,149,701	30,247,495
Reverse repurchase agreements	929,498	234,745
Certificates of deposit	2,239,667	2,759,757
Real estate	3,764,059	3,173,561
Net current assets	967,370	1,603,084
	<u>76,713,352</u>	<u>81,759,728</u>

(v) Components of defined benefit credit recognised in statement of revenue and expenses:

	The Group	
	2020	2019
Current service costs	846,097	898,563
Interest cost on obligation	2,429,646	2,652,894
Interest income on plan assets	(5,284,030)	( 5,256,301)
Administrative fees	166,867	145,001
	<u>(1,841,420)</u>	<u>( 1,559,843)</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**30. Retirement benefits asset/obligations (continued)****(a) Defined benefit pension plan (continued)**

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

	The Group	
	2020	2019
Remeasurement of defined benefit obligations	( 6,576,074)	( 700,981)
Remeasurement of plan assets	9,333,415	( 6,926,239)
Change in effect on asset ceiling	<u>14,546,732</u>	<u>-</u>
	<u>17,304,073</u>	<u>( 7,627,220)</u>

(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 defined 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			
	2020		2019	
	1 % Increase	1 % Decrease	1 % Increase	1 % Decrease
Discount rate	(4,242,000)	5,343,000	(5,279,000)	6,771,000
Future pension increases	3,566,000	(2,982,000)	4,377,000	(3,613,000)
Future salary increases	<u>1,119,000</u>	<u>(1,006,000)</u>	<u>1,415,000</u>	<u>(1,267,000)</u>

(viii) Liability duration

The average liability duration is as follows:

	The Group	
	2020	2019
Active members and all participants (years)	<u>14.6</u>	<u>16.0</u>

(ix) The estimated pension contributions to be paid into the defined benefit and contribution plans during the next financial year is \$500 (2019: \$500).

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

	The Group	
	2020	2019
Discount rate	9.00%	6.50%
Future salary increases	7.00%	5.00%
Future pension increases	<u>3.75%</u>	<u>2.25%</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**30. 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	
	2020	2019
Balance at beginning of year	(4,646,759)	(4,727,215)
Current service costs	( 164,583)	( 192,670)
Interest cost	( 298,038)	( 350,319)
Benefits paid	106,721	113,866
Actuarial gains arising from:		
Experience adjustments	29,489	65,690
Changes in financial assumptions	497,859	318,825
Changes in demographic assumptions	( 66,576)	125,064
Balance at end of year	<u>(4,541,887)</u>	<u>(4,646,759)</u>

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

	The Group	
	2020	2019
Current service costs	164,583	192,670
Interest on obligation	<u>298,038</u>	<u>350,319</u>
	<u>462,621</u>	<u>542,989</u>

**(iii) Credit charge recognised in other comprehensive income:**

	The Group	
	2020	2019
Experience adjustments	( 29,489)	( 65,690)
Changes in financial and demographic assumptions	<u>(431,283)</u>	<u>(443,889)</u>
	<u>(460,772)</u>	<u>(509,579)</u>

**(iv) Principal actuarial assumptions:**

In addition to the assumptions used for the pension plan that are applicable to the group health plan, the estimate assumes a long-term increase in health costs of 6.5% (2019: 4.5%) 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.

	The Group			
	2020		2019	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(639,000)	814,000	(703,000)	909,000
Future pension increases	752,000	(601,000)	803,000	(634,000)
Future salary increases	<u>11,000</u>	<u>( 10,000)</u>	<u>17,000</u>	<u>( 15,000)</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**30. Retirement benefits asset/obligations (continued)****(b) Medical and group life obligations recognised in the statement of financial position (continued)****(vi) Liability duration**

The average liability duration is as follows:

	The Group	
	2020	2019
Active members and all participants (years)	<u>16.6</u>	<u>17.6</u>

**31. Deposits by the public**

	The Group	
	2020	2019
Personal	181,987,046	161,808,073
Business	154,634,525	151,089,922
Interest payable	<u>38,867</u>	<u>70,152</u>
	<u>336,660,438</u>	<u>312,968,147</u>

Deposits include \$800,325 (2019: \$709,156) held as collateral for irrevocable commitments under letters of credit.

**32. 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.

**33. Due to ultimate parent company**

	The Group	
	2020	2019
The Bank of Nova Scotia:		
Facility I	-	598,109
Facility II	<u>857,547</u>	<u>1,368,579</u>
	857,547	1,966,688
Interest payable	<u>10,630</u>	<u>24,939</u>
	868,177	1,991,627
Deposits held with Bank	<u>12,857</u>	<u>22,575</u>
	<u>881,034</u>	<u>2,014,202</u>

(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.

**34. Due to fellow subsidiaries**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**35. 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.

**36. Other liabilities**

	The Group	
	2020	2019
Accrued staff benefits	3,245,730	2,700,320
Prepaid letters of credit	117,901	32,929
Provisions	298,877	434,369
Lease liabilities [note 36(b)]	1,271,906	-
Accrued liabilities	<u>6,372,573</u>	<u>3,671,781</u>
	<u>11,306,987</u>	<u>6,839,399</u>

**(i) Leases**

## Leases as lessee

The Group leases properties. The leases for the Group and Company typically run for periods of 3 years with an option to renew the lease after that date. Lease payments are renegotiated at the time of lease renewal to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. Previously, these leases were classified as operating leases under IAS 17.

The Group have elected not to recognise right-of-use assets and lease liabilities for leases that are short-term and/or leases of low-value items.

Information about leases for which the Group is the lessee, is presented below.

**(a) Right-of-use assets**

Right of use assets are presented in property, plant and equipment (note 28).

	The Group 2020
<b>(b) Lease liabilities</b>	
Lease liabilities included in the statements of financial position	
At October 31, 2020	<u>1,271,906</u>
Lease liabilities are classified as follows:	
Current	154,623
Non-current	<u>1,117,283</u>
	<u>1,271,906</u>
Maturity analysis of contractual undiscounted cash flows:	
Less than one year	179,986
One to five years	627,077
Over five years	<u>612,355</u>
	<u>1,419,418</u>
<b>(c) Amounts recognised in profit or loss:</b>	<u>2020</u>
Interest expense on lease liabilities	28,762
Depreciation on right-of-use assets	186,187
Expenses related to short-term leases	<u>44,605</u>
<b>(d) Amounts recognised in statement of cash flows:</b>	<u>2020</u>
Total cash outflow for leases	<u>200,109</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**36. Other liabilities (continued)****(i) Leases (continued)****(e) Extension options**

Some property leases contain extension options exercisable by the Group up to March 5, 2043. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liabilities of \$401,044.

The Company did not have any leases.

**37. 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%.

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

	<u>The Group</u>		<u>The Company</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Balance as at beginning of year	(12,964,574)	(10,722,922)	(8,559)	(11,119)
Cumulative effect of adopting IFRS 9	-	401,766	-	-
Balance at November 1	(12,964,574)	(10,321,156)	(8,559)	(11,119)
Exchange rate adjustment	4,850	-	-	-
Recognised in the profit for the year (note 15)	443,696	(13,741)	8,512	2,560
Recognised in other comprehensive income				
Remeasurement of defined benefits asset/obligations	5,614,435	(2,712,266)	-	-
Fair value through OCI				
- fair value remeasurement	(75,575)	(129,543)	-	-
- transfer to profit	89,752	212,132	-	-
	14,177	82,589	-	-
	5,628,612	(2,629,677)	-	-
Balances at end of year	(6,887,416)	(12,964,574)	(47)	(8,559)



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**37. Deferred tax assets and liabilities (continued)**

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

	The Group		The Company	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Pension benefits	(9,414,166)	(14,570,028)	-	-
Other post-retirement benefits	1,513,948	1,549,339	-	-
Investment securities	( 397,370)	( 533,347)	-	-
Vacation accrued	167,395	150,621	-	-
Accelerated tax depreciation	59,027	11,584	-	-
Allowances for expected credit losses	1,455,499	458,538	-	-
Interest receivable	( 135,619)	( 138,030)	(47)	(8,559)
Unrealised foreign exchange gain	( 116,003)	-	-	-
Unrealised net premiums on investment securities	120,540	102,365	-	-
Other	( 140,667)	4,384	-	-
Net deferred income tax liability	<u>(6,887,416)</u>	<u>(12,964,574)</u>	<u>(47)</u>	<u>(8,559)</u>
	The Group		The Company	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
This is comprised of:-				
Deferred income tax asset	149,744	117,518	-	-
Deferred income tax liability	<u>(7,037,160)</u>	<u>(13,082,092)</u>	<u>(47)</u>	<u>(8,559)</u>
	<u>(6,887,416)</u>	<u>(12,964,574)</u>	<u>(47)</u>	<u>(8,559)</u>

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

	The Group		The Company	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Accelerated tax depreciation	( 47,443)	( 42,853)	-	-
Pensions and other post retirement benefits	493,960	377,035	-	-
Allowance for expected credit losses	(973,935)	( 271,822)	-	-
Vacation accrued	( 16,774)	( 5,642)	-	-
Interest receivable	( 2,411)	( 68,973)	(8,512)	(2,560)
Trading assets	29,176	16,042	-	-
Unrealised foreign exchange gains	116,003	-	-	-
Unrealised discount on investment securities	( 44,617)	( 13,553)	-	-
Other	2,344	23,507	-	-
	<u>(443,697)</u>	<u>13,741</u>	<u>(8,512)</u>	<u>(2,560)</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**38. Policyholders' liabilities**

(a) Composition of policyholders' liabilities:

	The Group	
	2020	2019
Policyholders' fund	52,384,076	51,802,107
Benefits and claims payable	333,220	233,934
Unprocessed premiums	18,798	21,506
Annuity fund	745,074	592,815
Insurance risk reserve - Individual life	( 9,528,836)	( 8,906,602)
- Individual accident and sickness	513,096	452,653
- Whole life	106,014	99,084
- Group life	728,174	844,546
	<u>45,299,616</u>	<u>45,140,043</u>

(b) Movement in policyholders' liabilities:

	The Group	
	2020	2019
Policyholders' fund:		
At beginning of year	51,802,107	51,594,637
Gross premium	4,886,323	4,886,323
Disbursements	( 5,524,748)	( 6,000,892)
Interest credited	<u>1,220,394</u>	<u>1,322,039</u>
At end of year	<u>52,384,076</u>	<u>51,802,107</u>

	The Group	
	2020	2019
Benefits and claims payable:		
At beginning of year	233,934	181,629
New claims and benefits made during the year	351,729	268,180
Benefits and claims paid	(252,443)	( 215,875)
At end of year	<u>333,220</u>	<u>233,934</u>

	The Group	
	2020	2019
Unprocessed premiums:		
At beginning of year	21,506	12,639
Premiums received	7,854,752	7,854,752
Premiums applied	(7,857,460)	( 7,845,885)
At end of year	<u>18,798</u>	<u>21,506</u>
Annuity fund:		
At beginning of year	592,815	539,869
Issue of new annuities	178,599	72,574
Payments	( 45,758)	( 38,706)
Interest credited	<u>19,418</u>	<u>19,078</u>
At end of year	<u>745,074</u>	<u>592,815</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**38. Policyholders' liabilities (continued)**

(b) Movement in policyholders' liabilities (continued):

	The Group		
	2020		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(8,354,865)	844,546	(7,510,319)
Changes in assumptions	( 493,837)	1,097	( 492,740)
Changes to tax regime	-	44,734	44,734
Normal changes	( 61,024)	(162,203)	( 223,227)
At end of year	<u>(8,909,726)</u>	<u>728,174</u>	<u>(8,181,552)</u>
	2019		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(7,617,156)	580,711	(7,036,445)
Changes in assumptions	( 372,760)	621	( 372,139)
Normal changes	( 364,949)	263,214	( 101,735)
At end of year	<u>(8,354,865)</u>	<u>844,546</u>	<u>(7,510,319)</u>

**39. Share capital**

	Number of Units ('000)		Carrying value	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Authorised:				
Ordinary shares of no par value	<u>10,000,000</u>	<u>10,000,000</u>	<u>-</u>	<u>-</u>
Issued and fully paid:				
Ordinary stock units	<u>3,111,573</u>	<u>3,111,573</u>	<u>6,569,810</u>	<u>6,569,810</u>

Under the provisions of the Companies Act 2004 (the Act), the shares have no par value. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 43. Cumulative remeasurement gains from investment securities

This represents the unrealised surplus or deficit on the revaluation of investment 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 expected credit losses determined under IFRS requirements (note 24).

### 45. Other reserves

This represents reserves arising on consolidation of subsidiaries.

### 46. 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.

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 33.

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**46. Related party transactions and balances (continued)**

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

	Ultimate parent	Fellow subsidiaries	The Group Directors and key management personnel	Connected companies	Total	
					2020	2019
<b>Loans</b>						
Balance at October 31	-	-	711,764	7,595,226	8,306,990	8,579,074
Interest income earned	-	-	31,764	645,104	676,868	615,455
<b>Deposit liabilities</b>						
Balance at October 31	881,034	264,384	1,682,309	4,330,255	7,157,982	6,870,088
Interest expense on deposits	80,991	38	241	8,464	89,734	153,918
<b>Investments/repurchase agreements</b>						
Other investments	-	295,369	( 114,555)	( 6,908)	173,806	411,765
Interest earned/(paid) on other investments	-	61,157	( 8)	( 2)	61,147	55,600
<b>Deposits with banks</b>						
Due from banks and other financial institutions	1,624,321	25,943,077	-	-	27,567,398	28,356,641
Interest earned from banks and other financial institutions	68	245,233	-	-	245,301	821,754
<b>Other</b>						
Fees and commission, net	-	-	( 87,330)	31,962	( 55,368)	472
Insurance products	-	-	15,292	-	15,292	13,494
Technical fees paid, net	(1,938,882)	-	-	-	( 1,938,882)	( 2,197,989)
Other operating expense, net	(1,168,116)	(1,399,646)	-	-	(2,567,762)	(2,469,001)

	The Group	
	2020	2019
<b>Key management compensation</b>		
Salaries and other short term benefits	826,281	862,213
Post-employment benefits	( 47,801)	(163,224)
	<u>778,480</u>	<u>698,989</u>

**47. 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 financial instruments include credit risk, market risk and liquidity risk. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 47. Financial risk management (continued)

#### (a) Overview and risk management framework (continued)

- 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.

##### (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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(b) Credit risk (continued)****(i) Credit Risk Management (continued)**

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, corporate and personal guarantees.

In addition, the Group seeks additional collateral from a counterparty as soon as a significant increase in credit risk observed for the relevant individual loan.

The Group's policy requires the review of individual financial assets that are above materiality thresholds annually or more regularly when individual circumstances require. Allowances for expected credit losses are consistent with the policies outlined in note 3(o).

**(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. Internal grades (IG) are used to differentiate the risk of default of the borrower. The following table cross references the Bank's internal borrower grades with equivalent rating category used by Standard and Poor's.:

**IG Code rating**

Investment grade  
Non-investment grade  
Watch list  
Default

**External rating: Standard & Poor's equivalent.**

AAA to BBB-  
BB+ to B-  
CCC+ to CC  
Default

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. 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 statistical analysis with credit officer judgment, and fall within the following categories:

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

**Retail Loans including all credit card segments:**

The Group				
2020				
Category of PD Grade	Stage 1	Stage 2	Stage 3	Total
Very Low	22,186,228	33,267	-	22,219,495
Low	28,745,716	75,459	-	28,821,175
Medium	41,788,654	1,788,120	-	43,576,774
High	20,975,692	3,359,484	-	24,335,176
Very High	<u>219,016</u>	<u>3,900,251</u>	<u>7,389</u>	<u>4,126,656</u>
Subtotal: PD Grades (Advanced Models)	<u>113,915,306</u>	<u>9,156,581</u>	<u>7,389</u>	<u>123,079,276</u>
Loans not graded (Intermediate or simplified or gross-up)	269,610	( 58,751)	-	210,859
Default	<u>-</u>	<u>-</u>	<u>4,013,629</u>	<u>4,013,629</u>
Total	114,184,916	9,097,830	4,021,018	127,303,764
Expected credit loss allowance	<u>( 3,204,237)</u>	<u>(2,094,976)</u>	<u>(2,043,052)</u>	<u>( 7,342,265)</u>
Carrying Amounts	<u>110,980,679</u>	<u>7,002,854</u>	<u>1,977,966</u>	<u>119,961,499</u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**47. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)****Retail Loans including all credit card segments (continued):**

The Group				
2019				
Category of PD Grade	Stage 1	Stage 2	Stage 3	Total
Very Low	1,823,000	-	-	1,823,000
Low	45,740,407	75,196	-	45,815,603
Medium	49,823,086	395,992	-	50,219,078
High	17,284,054	3,663,147	-	20,947,201
Very High	<u>12,987</u>	<u>2,918,976</u>	<u>8,662</u>	<u>2,940,625</u>
Subtotal: PD Grades (Advanced Models)	<u>114,683,534</u>	<u>7,053,311</u>	<u>8,662</u>	<u>121,745,507</u>
Loans not graded (Intermediate or simplified or gross-up)	3,148,381	212,406	-	3,360,787
Default	<u>-</u>	<u>-</u>	<u>3,056,558</u>	<u>3,056,558</u>
Total	117,831,915	7,265,717	3,065,220	128,162,852
Expected credit loss allowance	( 1,149,893)	(1,135,571)	(1,252,566)	( 3,538,030)
Carrying Amounts	<u>116,682,022</u>	<u>6,130,146</u>	<u>1,812,654</u>	<u>124,624,822</u>

**Commercial Loans excluding all credit card segments:**

The Group						
2020						
Internal Grade	IG Code	S&P	Stage 1	Stage 2	Stage 3	Total
Investment grade	99-98	AAA to AA+	-	909,296	-	909,296
	95	AA to A+	-	221,805	-	221,805
	90	A to A-	-	1,112,473	-	1,112,473
	87	BBB+	-	65,055	-	65,055
	85	BBB	8,803,706	2,004,231	-	10,807,937
	83	BBB-	1,572,683	3,599,742	-	5,172,425
Non-investment	80	BB+	3,858,836	3,255,146	-	7,113,982
	77	BB	14,656,894	584,957	-	15,241,851
	75	BB-	32,674,795	3,075,402	-	35,750,197
	73	B+	21,353,012	227,063	-	21,580,075
	70	B to B-	713,800	1,163,981	-	1,877,781
Watch	65	CCC+	-	274,141	-	274,141
	60	CCC	-	474,243	-	474,243
	30		-	53,418	-	53,418
Default			<u>-</u>	<u>-</u>	<u>744,674</u>	<u>744,674</u>
Total			<u>83,633,726</u>	<u>17,020,953</u>	<u>744,674</u>	<u>101,399,353</u>
Expected credit loss allowance			( 317,401)	( 161,890)	(154,727)	( 634,018)
Carrying amount			<u>83,316,325</u>	<u>16,859,063</u>	<u>589,947</u>	<u>100,765,335</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)****Commercial Loans excluding all credit card segments (continued):**

The Group 2019						
Internal Grade	IG Code	S&P	Stage 1	Stage 2	Stage 3	Total
Investment grade	99-98	AAA to AA+	-	928,694	-	928,694
	95	AA to A+	2,129	249,924	-	252,053
	90	A to A-	859,169	1,289,287	-	2,148,456
	87	BBB+	257,778	35,167	-	292,945
	85	BBB	1,595,650	3,012,119	-	4,607,769
	83	BBB-	2,520,423	3,881,374	-	6,401,797
Non-investment	80	BB+	6,368,647	3,679,284	-	10,047,931
	77	BB	12,567,678	666,824	-	13,234,502
	75	BB-	23,923,537	2,917,804	-	26,841,341
	73	B+	14,354,756	271,184	-	14,625,940
	70	B to B-	505,222	472,128	-	977,350
Watch	65	CCC+	-	310,797	-	310,797
	60	CCC	-	284,460	-	284,460
Default			-	-	658,437	658,437
Total			62,954,989	17,999,046	658,437	81,612,472
Expected credit loss allowance			( 232,302)	( 175,945)	(203,663)	( 611,910)
Carrying amount			62,722,687	17,823,101	454,774	81,000,562

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. 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	
	2020	2019
	%	%
Standard	83.4	84.5
Special Mention	14.3	13.7
Sub-Standard	1.1	1.1
Doubtful	0.7	0.4
Loss	0.5	0.3
	<u>100.0</u>	<u>100.0</u>

Debt securities: Internal grades are used to differentiate the risk of default of a borrower. The following table cross references the Group's internal grades with external rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent:

Debt securities:

	The Group			
	2020		2019	
	Stage 1	Total	Stage 1	Total
AAA to AA+	12,400,383	12,400,383	31,945,169	31,945,169
AA to A+	15,239,866	15,239,866	2,286,281	2,286,281
BB to B-	101,220,585	101,220,585	98,585,599	98,585,599
Unrated	4,242,477	4,242,477	1,438,854	1,438,854
Allowance	<u>133,103,311</u>	<u>133,103,311</u>	<u>134,255,903</u>	<u>134,255,903</u>

Classified as follows:

	The Group	
	2020	2019
Amortised cost	6,283,936	5,552,088
Fair value through OCI	116,392,711	119,413,155
Fair value through profit or loss	3,389,972	2,918,829
Pledged Assets:		
Amortised cost	281,845	281,845
Fair value through OCI	<u>6,754,847</u>	<u>6,089,986</u>
	<u>133,103,311</u>	<u>134,255,903</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. 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 \$157,485,194 (2019: \$147,539,959) 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.

	The Group			
	Loans and leases	Acceptances, guarantees and letters of credit	Total 2020	Total 2019
Agriculture, fishing and mining	737,213	26,213	763,426	1,002,926
Construction and real estate	3,757,966	980,030	4,737,996	6,368,224
Distribution	16,093,260	69,100	16,162,360	18,726,172
Financial institutions	7,584,942	1,174,826	8,759,768	9,322,773
Government and public entities	9,559,474	52,709	9,612,183	11,796,112
Manufacturing	14,611,096	47,223	14,658,319	10,671,482
Transportation, electricity, water and other	21,591,399	1,511,725	23,103,124	15,444,739
Personal	125,662,417	5,745,687	131,408,104	132,135,453
Professional and other services	12,688,417	3,475,092	16,163,509	12,821,955
Tourism and entertainment	13,972,344	58,235	14,030,579	3,994,431
Interest receivable	2,444,589	-	2,444,589	1,097,775
Total	<u>228,703,117</u>	<u>13,140,840</u>	241,843,957	223,382,042
Total allowance for credit losses			( 8,075,423 )	( 4,262,520 )
			<u>233,768,534</u>	<u>219,119,522</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. 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, 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

	The Group						
	2020						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	27,363,830	51,759,259	9,762,221	-	-	52,371,456	141,256,766
Financial assets at fair value through profit or loss	-	-	318,270	2,436,689	623,767	306,614	3,685,340
Pledged assets	1,642,574	6,593,042	1,768,897	5,073,240	-	2,102,039	17,179,792
Loans (1)	85,985,573	21,603,481	23,060,108	78,510,007	10,297,983	1,269,682	220,726,834
Investment securities (2)	50,950	43,355,867	18,912,469	36,906,934	16,392,884	778,712	116,397,816
Securities purchased under resale agreements	-	1,099,778	-	-	-	1,093	1,100,871
Other assets	-	-	-	-	-	55,933,929	55,933,929
Total assets	115,042,927	124,411,427	53,821,965	122,926,870	27,314,634	112,763,525	556,281,348
Deposits, due to banks, parent company and fellow subsidiaries (3)	321,754,958	8,776,409	8,958,196	1,822,656	-	61,359	341,373,578
Capital Management and Government Securities funds	19,150,315	-	-	-	-	7,460	19,157,775
Policyholders' liabilities	41,457,706	1,489,664	10,533,798	-	-	( 8,181,552)	45,299,616
Other liabilities	-	-	-	-	-	39,694,745	39,694,745
Stockholders' equity	-	-	-	-	-	110,755,634	110,755,634
Total liabilities and stockholders' equity	382,362,979	10,266,073	19,491,994	1,822,656	-	142,337,646	556,281,348
Total interest rate sensitivity gap	(267,320,052)	114,145,354	34,329,971	121,104,214	27,314,634	( 29,574,121)	-
Cumulative gap	(267,320,052)	(153,174,698)	(118,844,727)	2,259,487	29,574,121	-	-
	2019						
Total assets	117,657,245	130,555,413	46,367,057	111,789,542	16,638,287	125,994,132	549,001,676
Total liabilities and stockholders' equity	362,184,071	13,686,375	17,575,296	1,941,398	-	153,614,536	549,001,676
Total interest rate sensitivity gap	(244,526,826)	116,869,038	28,791,761	109,848,144	16,638,287	( 27,620,404)	-
Cumulative gap	(244,526,826)	(127,657,788)	(98,866,027)	10,982,117	27,620,404	-	-

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. 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					
	2020					
	Immediately <u>rate sensitive</u> %	Within 3 <u>months</u> %	3 to 12 <u>months</u> %	1 to 5 <u>years</u> %	Over <u>5 years</u> %	Weighted <u>average</u> %
<b>ASSETS</b>						
Cash resources	0.04	0.18	0.45	-	-	0.16
Securities purchased under resale agreements	-	4.07	-	-	-	4.07
Financial assets at fair value through profit or loss	-	-	2.85	6.18	4.62	5.58
Loans (1)	12.67	23.79	9.16	9.07	7.16	10.72
Investment securities (2)	-	1.47	1.85	3.98	4.86	2.81
Pledged assets	-	0.42	2.66	4.78	-	2.13
<b>LIABILITIES</b>						
Deposits (3)	0.21	0.72	1.07	3.48	-	0.26
Capital Management and Government Securities funds	0.22	-	-	-	-	0.22
Policyholders' liabilities	<u>2.21</u>	<u>2.49</u>	<u>2.40</u>	<u>-</u>	<u>-</u>	<u>2.26</u>
	2019					
	Immediately <u>rate sensitive</u> %	Within 3 <u>months</u> %	3 to 12 <u>months</u> %	1 to 5 <u>years</u> %	Over <u>5 years</u> %	Weighted <u>average</u> %
<b>ASSETS</b>						
Cash resources	0.50	1.24	1.81	-	-	0.89
Securities purchased under resale agreements	-	1.40	-	-	-	1.40
Financial assets at fair value through profit or loss	-	-	-	1.88	5.24	2.55
Loans (1)	14.45	13.62	9.93	9.71	7.58	11.89
Investment securities (2)	-	2.14	2.34	4.63	5.43	2.99
Pledged assets	-	3.03	0.17	6.49	2.56	3.64
<b>LIABILITIES</b>						
Deposits (3)	0.28	1.66	1.99	3.08	-	0.39
Capital Management and Government Securities funds	0.07	-	-	-	-	0.07
Policyholders' liabilities	<u>2.46</u>	<u>2.95</u>	<u>2.56</u>	<u>-</u>	<u>-</u>	<u>2.50</u>

(1) Yields are based on book values, net of expected 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 47. Financial risk management (continued)

#### (c) Market risk (continued)

##### (i) Interest rate risk (continued)

	The Company					Total
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Non-rate sensitive	
Cash resources	2,922,071	-	8,562,221	-	-	11,484,292
Investment in subsidiaries	-	-	-	-	13,029,808	13,029,808
Other assets	-	-	-	-	177,014	177,014
<b>Total assets</b>	<b>2,922,071</b>	<b>-</b>	<b>8,562,221</b>	<b>-</b>	<b>13,206,922</b>	<b>24,691,214</b>
Other liabilities	-	-	-	-	1,418,550	1,418,550
Stockholders' equity	-	-	-	-	23,272,664	23,272,664
<b>Total liabilities and stockholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,691,214</b>	<b>24,691,214</b>
<b>Total interest rate sensitivity gap</b>	<b>2,922,071</b>	<b>-</b>	<b>8,562,221</b>	<b>-</b>	<b>(11,484,292)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>2,922,071</b>	<b>2,922,071</b>	<b>11,484,292</b>	<b>11,484,292</b>	<b>-</b>	<b>-</b>

	2019					Total
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Non-rate sensitive	
Total assets	1,913,840	-	9,165,535	-	13,268,061	24,347,436
Total liabilities and stockholders' equity	-	-	-	-	24,347,436	24,347,436
<b>Total interest rate sensitivity gap</b>	<b>1,913,840</b>	<b>-</b>	<b>9,165,535</b>	<b>-</b>	<b>(11,079,375)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>1,913,840</b>	<b>1,913,840</b>	<b>11,079,375</b>	<b>11,079,375</b>	<b>-</b>	<b>-</b>

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

	The Company					Weighted average %
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	
<b>ASSETS</b>						
Cash resources	-	-	0.05	-	-	0.04

	2019					Weighted average %
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	
<b>ASSETS</b>						
Cash resources	0.50	-	1.81	-	-	1.58

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

#### 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 2019.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)****Sensitivity to interest rate movements (continued)**

	The Group			
	2020		2019	
	Increase/decrease by 140 bps by 400 bps		Increase/decrease by 225 bps by 225 bps	
	The Group		The Company	
	2020	2019	2020	2019
JMD Interest rates				
USD Interest rates				
Effect on profit or loss	2,809,730	2,625,302	230,540	204,556
Effect on stockholders' equity	<u>12,039,080</u>	<u>9,700,142</u>	<u>109,177</u>	<u>67,597</u>

**(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						Total
	JMD	USD	CAD	GBP	EUR	Other	
2020							
<b>ASSETS</b>							
Cash resources	50,272,029	81,350,699	2,915,759	5,648,086	922,911	147,282	141,256,766
Financial assets at fair value through profit or loss	3,319,707	365,633	-	-	-	-	3,685,340
Pledged assets	3,900,320	12,958,754	-	320,718	-	-	17,179,792
Loans	185,487,845	35,239,767	( 782)	4	-	-	220,726,834
Investment securities	82,657,531	32,355,592	1,384,693	-	-	-	116,397,816
Government securities							
Under repurchase agreement	1,100,871	-	-	-	-	-	1,100,871
Other assets	47,569,813	8,086,597	10,431	8,217	259,492	( 621)	55,933,929
	374,308,116	170,357,042	4,310,101	5,977,025	1,182,403	146,661	556,281,348
<b>LIABILITIES</b>							
Deposits	206,020,798	125,953,194	3,955,580	4,899,184	543,667	1,155	341,373,578
Capital Management and Government Securities Funds	3,221,201	14,418,662	213,098	1,168,903	135,911	-	19,157,775
Other liabilities	30,908,348	8,408,120	64,882	39,090	263,055	11,250	39,694,745
Policy holders' liabilities	45,299,616	-	-	-	-	-	45,299,616
	285,449,963	148,779,976	4,233,560	6,107,177	942,633	12,405	445,525,714
<b>NET POSITION</b>	88,858,153	21,577,066	76,541	( 130,152)	239,770	134,256	110,755,634

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)****JMD Equivalent**

	The Group						Total
	JMD	USD	CAD	GBP	EUR	Other	
2019							
<b>ASSETS</b>							
Cash resources	51,566,633	72,876,103	3,775,746	5,822,373	682,123	276,168	134,999,146
Financial assets at fair value through profit or loss	2,724,603	536,974	-	-	-	-	3,261,577
Pledged assets	5,307,961	10,274,291	-	88,245	-	-	15,670,497
Loans	179,448,788	26,176,700	( 110)	3	3	-	205,625,384
Investment securities	86,728,061	32,449,943	287,781	-	-	-	119,465,785
Government securities	600,518	-	-	-	-	-	600,518
Other assets	<u>61,815,266</u>	<u>7,443,610</u>	<u>8,571</u>	<u>1,172</u>	<u>110,150</u>	<u>-</u>	<u>69,378,769</u>
	<u>388,191,830</u>	<u>149,757,621</u>	<u>4,071,988</u>	<u>5,911,793</u>	<u>792,276</u>	<u>276,168</u>	<u>549,001,676</u>
<b>LIABILITIES</b>							
Deposits	198,864,165	114,360,005	3,583,275	4,893,823	743,424	330	322,445,022
Capital Management and Government Securities Funds	3,229,768	15,413,364	253,589	1,299,157	95,879	-	20,291,757
Other liabilities	34,351,829	8,175,176	106,218	74,522	112,906	190,127	43,010,778
Policy holders' liabilities	<u>45,140,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,140,043</u>
	<u>281,585,805</u>	<u>137,948,545</u>	<u>3,943,082</u>	<u>6,267,502</u>	<u>952,209</u>	<u>190,457</u>	<u>430,887,600</u>
<b>NET POSITION</b>	<u>106,606,025</u>	<u>11,809,076</u>	<u>128,906</u>	<u>( 355,709)</u>	<u>(159,933)</u>	<u>85,711</u>	<u>118,114,076</u>

The following significant exchange rates were applied during the period:

	Average rate for the period		Reporting date spot rate	
	2020	2019	2020	2019
USD	140.2926	131.9916	145.1010	138.9420
CAD	104.7737	98.5815	110.801	103.3703
GBP	180.7931	166.5244	188.0946	176.2299
EUR	<u>159.4470</u>	<u>145.7749</u>	<u>170.3776</u>	<u>152.1042</u>

**Sensitivity to foreign exchange rate movements**

A weakening of the JMD against the above currencies at October 31 would have increased/(decreased) equity and profit by the amounts shown. This analysis is performed on the same basis as 2019. 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

Sensitivity to foreign exchange movements:

	The Group	
	<u>2020</u> Increase/decrease	<u>2019</u> Increase/decrease
USD	by 8.25%	by 8.25%
CAD	by 12.25%	by 4.50%
GBP	by 15.25%	by 2.95%
EUR	<u>by 14.00%</u>	<u>by 4.00%</u>
	<u>2020</u>	<u>2019</u>
Effect on profit and stockholders' equity	<u>287,370</u>	<u>425,473</u>

**(iii) Equity price risk**

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 did not have investments in equities.

**(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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(d) Liquidity risk (continued)**

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.

**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					Carrying amounts
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
<b>Financial liabilities</b>						
Deposits, due to financial institutions, parent company and fellow subsidiaries	328,187,107	9,481,320	2,872,162	1,770,694	342,311,283	341,373,578
Capital Management and Government Securities Funds	19,157,775	-	-	-	19,157,775	19,157,775
Other liabilities	10,989,122	2,853,664	721,345	1,533,747	16,097,878	16,097,878
Policyholders' liabilities	43,106,094	9,565,295	-	-	52,671,389	45,299,616
<b>Total liabilities</b>	<b>401,440,098</b>	<b>21,900,179</b>	<b>3,593,507</b>	<b>3,304,441</b>	<b>430,238,325</b>	<b>421,928,847</b>
	2019					Carrying amounts
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
<b>Financial liabilities</b>						
Deposits, due to financial institutions, parent company and fellow subsidiaries	305,676,595	8,105,284	3,951,465	5,392,905	323,126,249	322,445,022
Capital Management and Government Securities Funds	20,291,757	-	-	-	20,291,757	20,291,757
Other liabilities	12,933,421	2,214,724	160,693	1,840,508	17,149,346	17,149,346
Policyholders' liabilities	42,041,730	10,130,857	-	-	52,172,587	45,140,043
<b>Total liabilities</b>	<b>380,943,503</b>	<b>20,450,865</b>	<b>4,112,158</b>	<b>7,233,413</b>	<b>412,739,939</b>	<b>405,026,168</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

## 47. 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.

*Frequency and severity of claims*

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

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

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

	The Group			
	Total benefits assured			
	2020		2019	
	Before and after Reinsurance	%	Before and after Reinsurance	%
Individual Life				
Benefits assured per life				
0 to 250,000	4,344,472	8	4,650,571	8
250,001 to 500,000	3,151,961	5	3,276,466	5
500,001 to 750,000	5,817,142	8	4,831,723	8
750,001 to 1,000,000	3,759,905	6	3,842,734	6
1,000,001 to 1,500,000	11,881,314	19	11,538,396	19
1,500,001 to 2,000,000	7,400,363	12	7,439,759	12
Over 2,000,000	<u>27,209,760</u>	<u>42</u>	<u>25,876,992</u>	<u>42</u>
Total	<u>63,564,917</u>	<u>100</u>	<u>61,456,641</u>	<u>100</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)****(e) Insurance risk (continued)****(i) Long-term insurance contracts (continued)***Frequency and severity of claims (continued)*

	The Group			
	Total benefits assured			
	2020		2019	
	Before and after Reinsurance	%	Before and after Reinsurance	%
Group Life				
Benefits assured per life				
0 to 250,000	11,132,665	11	11,249,210	11
250,001 to 500,000	4,530,015	4	4,489,216	4
500,001 to 750,000	8,540,533	8	7,966,961	8
750,001 to 1,000,000	6,655,342	6	6,225,170	6
1,000,001 to 1,500,000	20,521,027	21	22,245,282	21
1,500,001 to 2,000,000	14,063,933	14	15,296,232	14
Over 2,000,000	<u>36,500,127</u>	<u>36</u>	<u>37,498,338</u>	<u>36</u>
Total	<u>101,943,642</u>	<u>100</u>	<u>104,970,409</u>	<u>100</u>

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.

*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.

*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 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 company also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

## 47. Financial risk management (continued)

## (e) Insurance risk (continued)

## (ii) Reinsurance risk (continued)

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.

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
Individual, group and creditor life catastrophe	Maximum retention of \$420 for single event; Treaty limits apply
Group creditor life contracts and Individual Universal Life	Maximum retention of \$15,000 per insured

## (iii) Sensitivity analysis of actuarial liabilities

*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:

- mortality
- lapses and withdrawals
- operating expenses and taxes
- morbidity
- premium persistency

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

	The Group	
	2020	2019
Interest rates increase by 1%	69,350	49,960
Interest rates decrease by 1%	( 22,595)	( 1,634)
Mortality increases by 10%	477,813	453,164
Mortality decreases by 10%	(497,621)	(471,754)
Expenses increase by 10%	401,696	452,613
Expenses decrease by 10%	(399,368)	(448,942)
Lapses and withdrawals increase by 10%	398,596	382,366
Lapses and withdrawals decrease by 10%	(432,375)	(413,889)
Morbidity increase by 10%	137,246	126,398
Morbidity decrease by 10%	(138,633)	(127,649)
Premium persistency increase by 10%	( 10,029)	( 13,406)
Premium persistency decrease by 10%	<u>10,040</u>	<u>13,353</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 48. 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.

#### 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 fair value through OCI 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. Investments in unit trust are measured at fair value by reference to prices quoted by the fund managers.
- (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 values of liquid assets and other assets maturing within one year are 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 values of demand deposits and savings accounts with no specific maturity are considered to be the amount payable on demand at the reporting date; the fair values of fixed-term interest bearing deposits are based on discounted cash flows using interest rates for new deposits;
- (v) the fair values of variable rate financial instruments are considered to approximate their carrying amounts as they are frequently repriced to current market rates;



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

## 48. Fair value of financial instruments (continued)

## Basis of valuation (continued)

(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 asset based values.

(viii) The fair values of other liabilities due to be settled within one year are considered to approximate their carrying amount.

## 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							
	2020							
	Carrying amount			Fair value				
	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>								
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
Government securities	-	104,612,226	3,389,972	108,002,198	-	108,002,198	-	108,002,198
Bank of Jamaica securities	-	7,688,360	-	7,688,360	-	7,688,360	-	7,688,360
Treasury bills	-	2,835,496	-	2,835,496	-	2,835,496	-	2,835,496
Corporate bonds	-	1,256,629	-	1,256,629	-	1,256,629	-	1,256,629
Unitised funds	-	-	295,368	295,368	-	295,368	-	295,368
	-	116,397,816	3,685,340	120,083,156	-	120,078,051	5,105	120,083,156
<b>Pledged assets measured at fair value</b>								
Government securities	-	6,754,847	-	6,754,847	-	6,754,847	-	6,754,847
Unitised funds	-	-	1,993,157	1,993,157	-	1,993,157	-	1,993,157
	-	6,754,847	1,993,157	8,748,004	-	8,748,004	-	8,748,004
<b>Financial assets not measured at fair value</b>								
Loans and receivables	62,871,520	-	-	62,871,520	-	-	65,532,073	65,532,073
<b>Pledged assets not measured at fair value</b>								
Government securities	281,845	-	-	281,845	-	360,182	-	360,182

	The Group							
	2019							
	Carrying amount			Fair value				
	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>								
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
Quoted shares	-	-	47,525	47,525	47,525	-	-	47,525
Government securities	-	113,883,543	2,871,304	116,754,847	-	116,754,847	-	116,754,847
Treasury bills	-	1,670,268	-	1,670,268	-	1,670,268	-	1,670,268
Corporate bonds	-	3,906,869	-	3,906,869	-	3,906,869	-	3,906,869
Unitised funds	-	-	342,748	342,748	-	342,748	-	342,748
	-	119,465,785	3,261,577	122,727,362	47,525	122,674,732	5,105	122,727,362

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**48. Fair value of financial instruments (continued)****Basis of valuation (continued)***Accounting classifications and fair values (continued):*

	The Group							
	2019							
	Carrying amount				Fair value			
	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total	Level 1	Level 2	Level 3	Total
<b>Pledged assets measured at fair value</b>								
Government securities	-	6,089,986	-	6,089,986	-	6,089,986	-	6,089,986
Unitised funds	-	-	2,030,079	2,030,079	-	2,030,079	-	2,030,079
	-	6,089,986	2,030,079	8,120,065	-	8,120,065	-	8,120,065
<b>Financial assets not measured at fair value</b>								
Loans and receivables	69,289,475	-	-	69,289,475	-	-	72,156,422	72,156,422
<b>Pledged assets not measured at fair value</b>								
Government securities	-	281,845	-	281,845	-	360,390	-	360,390

**Valuation technique**

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

**49. 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**49. Capital risk management (continued)****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 carrying 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.

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 <sup>1</sup>		Regulated by the FSC <sup>2</sup>	
	2020	2019	2020	2019
Tier 1 Capital	53,134,917	53,111,662	8,803,412	8,596,726
Tier 2 Capital	-	-	464,162	464,162
	53,134,917	53,111,662	9,267,574	9,060,888
Less prescribed deductions	( 220,000)	( 220,000)	-	-
Total regulatory capital	<u>52,914,917</u>	<u>52,891,662</u>	<u>9,267,574</u>	<u>9,060,888</u>
	Regulated by the BOJ <sup>1</sup>		Regulated by the FSC <sup>2</sup>	
	2020	2019	2020	2019
<b>Risk weighted assets</b>				
On-balance sheet	273,109,577	266,599,176	20,539,794	18,158,976
Off-balance sheet	43,820,655	43,893,751	863,408	885,157
Foreign exchange exposure	<u>1,946,370</u>	<u>542,049</u>	<u>4,447,796</u>	<u>3,087,034</u>
Total risk weighted assets	<u>318,876,602</u>	<u>311,034,976</u>	<u>25,850,998</u>	<u>22,131,167</u>
Actual regulatory capital to risk weighted assets	16.59%	17.01%	35.85%	40.94%
Regulatory requirement	<u>10.00%</u>	<u>10.00%</u>	<u>10.00%</u>	<u>10.00%</u>

<sup>1</sup> This relates to The Bank of Nova Scotia Jamaica Limited and The Scotia Jamaica Building Society.

<sup>2</sup> This relates to Scotia Investments Jamaica Limited.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**49. Capital risk management (continued)****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 below:

	<u>2020</u>	<u>2019</u>
Regulatory capital held	7,218,589	6,753,810
Minimum regulatory capital	1,463,386	1,468,172
Minimum Continuing Capital on Surplus Requirements Ratio	493%	460%

**50. Commitments**

	<u>The Group</u>	
	<u>2020</u>	<u>2019</u>
(a) Capital expenditure - authorised and contracted	1,154,990	288,352
(b) Commitments to extend credit:		
Originated term to maturity of more than one year	43,995,656	44,070,237

**51. 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 Investments 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, 2020, the Group had assets under administration amounting to approximately \$233,394,304 (2019: \$242,231,223).

**52. 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

**53. Dividends**

(a) Paid to stockholders:

	<u>The Group and Company</u>	
	<u>2020</u>	<u>2019</u>
In respect of 2020	3,422,752	-
In respect of 2019	1,711,376	13,099,806
In respect of 2018	-	1,586,913
	<u>5,134,128</u>	<u>14,686,719</u>

(b) Proposed

At the Board of Directors meeting on December 9, 2020, a dividend in respect of 2020 of \$0.45 per share (2019: \$0.55 per share) amounting to \$1,400,217 (2019: \$1,711,365) 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.

**54. 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 \$37,904 (2019: \$43,184).

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

	<u>The Group</u>	
	<u>2020</u>	<u>2019</u>
Number of shares	<u>1,186,470</u>	<u>1,087,268</u>
Fair value of shares \$'000	<u>53,243</u>	<u>59,745</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020 (Expressed in thousands of Jamaican dollars unless otherwise stated)

### 55. Impact of COVID-19

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in significant disruptions to economic activities, business operations and asset prices.

In light of the heightened concerns and in accordance with the directives of the various governments, the Group activated its Business Continuity Plan to minimize the potential exposure to staff and clients, whilst ensuring that any disruption to the business is kept at a minimum. With the launch of the Business Continuity and Contingency Plan ("BCCP") as at March, 2020, specific work from home protocols were established and implemented to minimize the number of employees physically in office. In-Office staff are equipped with hand sanitizers, masks and face shields (where necessary), and are required to comply with the social/physical distancing rules mandated by governments in the various jurisdictions.

Furthermore, the Group acquired additional equipment, including computer hardware and software, to support the increased flexible working arrangements.

The Group continues to monitor the impact of COVID-19 on its members/customers and has implemented forbearance measures inclusive of granting moratoria, which included deferral of loan payments for up to three months. The Group ensures that all its locations remain compliant with government/public health restrictions and attendant mitigating measures.

Under IFRS 9, businesses are expected to include the impact of forward-looking macroeconomic indicators in their Expected Credit Loss (ECL) computation as at October 31, 2020.

Management continues to review the effect of developments arising from the pandemic on the risks faced by the Company and the Group. Management believes the Group is in a sufficiently strong position to deal with the possible significant economic downturn. However, management is aware that a long duration of the pandemic and the attendant containment measures could have a material adverse effect on the Group, and its customers, employees and suppliers.

## FORM OF PROXY

# Form of Proxy

**SCOTIA GROUP  
JAMAICA LIMITED  
(THE "COMPANY")**

SCOTIA GROUP JAMAICA LIMITED

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 **12<sup>th</sup>** day of **March 2021** 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

#### 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, 2020 previously circulated be and are hereby received.

For

Against

Ordinary Business		For	Against
<b>Resolution 2</b>	<p><b>Election of Directors</b></p> <p>Article 107 of the Company's Articles of Incorporation provides that at each Annual General Meeting all Directors for the time being shall retire from office. The retiring Directors are: Barbara Alexander, Eric Crawford, Angela Fowler, Jeffrey Hall, Antony Mark Hart, W. David McConnell, Leslie Reid, Audrey Richards, Evelyn Smith, Anya Schnoor, and Audrey Tugwell Henry.</p> <p>The proposed resolutions for election/re-election of Directors proposed by the Board of Directors of the Company are:-</p> <p>a) "That retiring Director Barbara Alexander be and is hereby re-elected a Director of the Company."</p> <p>b) "That retiring Director Eric Crawford be and is hereby re-elected a Director of the Company."</p> <p>c) "That retiring Director Angela Fowler be and is hereby re-elected a Director of the Company."</p> <p>d) "That retiring Director Jeffrey Hall be and is hereby re-elected a Director of the Company."</p> <p>e) "That retiring Director Antony Mark Hart be and is hereby re-elected a Director of the Company."</p> <p>f) "That retiring Director W. David McConnell be and is hereby re-elected a Director of the Company."</p> <p>g) "That retiring Director Leslie Reid be and is hereby re-elected a Director of the Company."</p> <p>h) "That retiring Director Audrey Richards be and is hereby re-elected a Director of the Company."</p> <p>i) "That retiring Director Evelyn Smith be and is hereby re-elected a Director of the Company."</p> <p>j) "That retiring Director Anya Schnoor be and is hereby re-elected a Director of the Company."</p> <p>k) "That retiring Director Audrey Tugwell Henry be and is hereby re-elected a Director of the Company."</p>		
<b>Resolution 3</b>	<p><b>Appointment of Auditors</b></p> <p>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.</p>		

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

.....2021.

#### NOTES:

Signature

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.



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Scotiabank is a leading bank in the Americas. Guided by our purpose: “*for every future,*” and driven by our values, we help our customers, their families and their communities achieve success through a broad range of advice, products and services.

We are serving customers and driving growth through our commitment to three pillars:

#### **CUSTOMER FIRST**

By putting our customers first, we’re helping them be better off today and tomorrow.

#### **WINNING TEAM**

A purpose-driven team, committed to results in an inclusive and high-performance culture.

#### **LEAD IN THE AMERICAS**

Focused on six core markets and supported by leading expertise allows us to prioritize our investment for long-term growth.

#### **OUR PURPOSE**

Why we exist;  
the impact we make

#### **OUR MISSION**

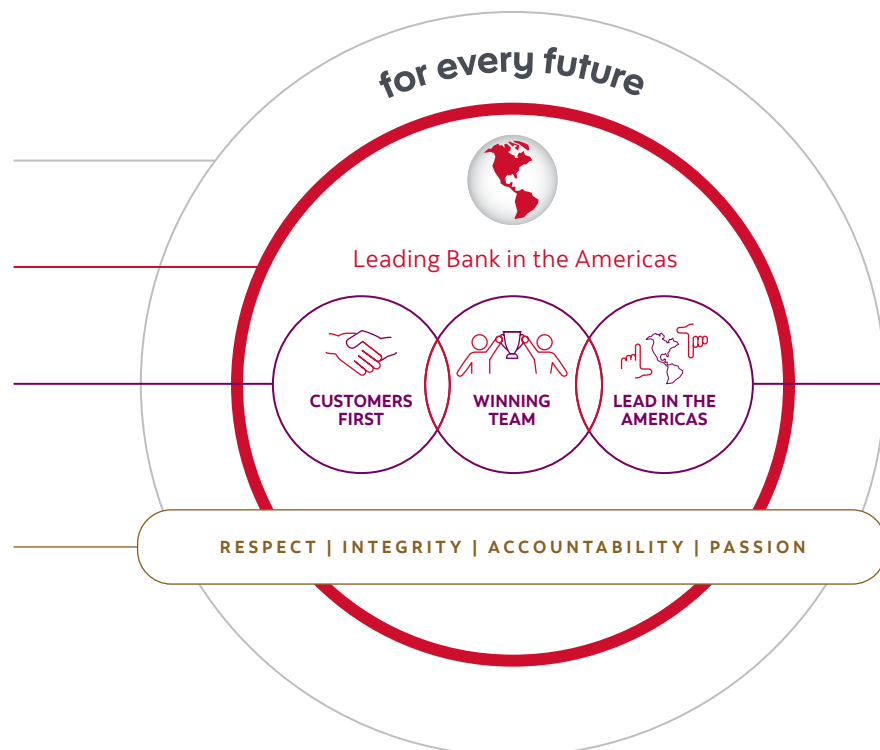
What we aspire to be

#### **CORE PILLARS**

How we do it

#### **OUR VALUES**

What guides  
our behaviours



# Contact Information

Call us at  
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