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INDEPENDENT AUDITORS' REPORT

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Bank of Nova Scotia Jamaica Limited ("the Bank") comprising the separate financial statements of the Bank and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), set out on pages 5 to 100, which comprise the Group's and the Bank's statements of financial position as at October 31, 2018, the Group's and the Bank's statements of revenue and expenses, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Bank as at October 31, 2018, and of the Group's and the Banks'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 Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Bank'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 Bank 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.

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



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

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.

A handwritten signature in blue ink that reads 'KPMG'.

Chartered Accountants
Kingston, Jamaica

December 5, 2018

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Revenue and Expenses****Year ended October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Net interest income and other revenue			
Net interest income			
Interest from loans and deposits with banks		21,858,276	22,330,318
Interest from securities		<u>5,068,296</u>	<u>5,778,349</u>
Total interest income	6	26,926,572	28,108,667
Interest expense	6	<u>(3,172,731)</u>	<u>(3,426,123)</u>
Net interest income		23,753,841	24,682,544
Impairment losses on loans	23	<u>(1,904,391)</u>	<u>(2,083,048)</u>
Net interest income after impairment losses on loans		<u>21,849,450</u>	<u>22,599,496</u>
Other revenue			
Fee and commission income	7	13,344,448	13,014,464
Fee and commission expense	7	<u>(6,767,110)</u>	<u>(5,787,463)</u>
Net fee and commission income		6,577,338	7,227,001
Net gains on foreign currency activities	8	3,923,740	2,555,924
Insurance revenue	9	2,931,627	2,785,032
Other (expense)/revenue	10	<u>(1,878)</u>	46,518
Net gains on financial assets		<u>626,016</u>	<u>354,112</u>
		<u>14,056,843</u>	<u>12,968,587</u>
		<u>35,906,293</u>	<u>35,568,083</u>
Expenses			
Salaries, pension contributions and other staff benefits	11	9,537,831	9,727,372
Property expenses, including depreciation		2,073,776	2,026,751
Asset tax		973,116	927,142
Other operating expenses		<u>7,780,632</u>	<u>7,112,484</u>
	12	<u>20,365,355</u>	<u>19,793,749</u>
Profit before taxation	13	15,540,938	15,774,334
Taxation	14	<u>(4,977,371)</u>	<u>(5,146,076)</u>
Profit for the year		<u>10,563,567</u>	<u>10,628,258</u>
Earnings per stock unit (expressed in \$)	15	<u>3.61</u>	<u>3.63</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Comprehensive Income****Year ended October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Profit for the year		<u>10,563,567</u>	<u>10,628,258</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefits plan	28	7,636,885	6,459,498
Taxation	34	<u>(2,545,628)</u>	<u>(2,153,166)</u>
		<u>5,091,257</u>	<u>4,306,332</u>
Items that are or may be reclassified to profit or loss:			
Unrealised gains on available-for-sale financial assets		2,243,027	377,278
Realised gains on available-for-sale financial assets transferred to profit		<u>(591,608)</u>	<u>(405,472)</u>
		1,651,419	(28,194)
Taxation	34	<u>(332,070)</u>	<u>7,193</u>
		<u>1,319,349</u>	<u>(21,001)</u>
Other comprehensive income, net of tax		<u>6,410,606</u>	<u>4,285,331</u>
Total comprehensive income		<u>16,974,173</u>	<u>14,913,589</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Financial Position****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	16	69,025,629	61,139,076
Government and bank notes other than Jamaican	17	898,300	890,257
Due from other banks	18	16,772,219	17,966,195
Accounts with parent and fellow subsidiaries	19	<u>22,902,739</u>	<u>27,825,927</u>
		<u>109,598,887</u>	<u>107,821,455</u>
Government securities purchased under resale agreements	20	<u>300,473</u>	<u>3,185,932</u>
Pledged assets	21	<u>1,554,672</u>	<u>1,507,981</u>
Loans, after allowance for impairment losses	22	<u>182,525,501</u>	<u>166,409,221</u>
Investment securities	24	<u>129,789,645</u>	<u>108,455,479</u>
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		8,455,218	7,852,973
Taxation recoverable		2,145,761	1,314,581
Sundry assets	25	1,742,860	1,723,659
Property, plant and equipment	26	5,290,606	5,315,431
Intangible assets	27	131,468	142,506
Retirement benefits asset	28	<u>34,517,087</u>	<u>25,020,925</u>
		<u>52,283,000</u>	<u>41,370,075</u>
		<u>476,052,178</u>	<u>428,750,143</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Financial Position (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*


	Notes	2018	2017
LIABILITIES			
Deposits by the public	29	287,948,379	260,559,467
Due to other banks and financial institutions	30	6,823,007	6,067,077
Due to parent and ultimate parent company	31	7,539,234	6,042,452
Due to fellow subsidiaries	32	<u>5,208,255</u>	<u>5,891,448</u>
		<u>307,518,875</u>	<u>278,560,444</u>
Other liabilities			
Cheques and other instruments in transit		2,213,198	1,598,229
Acceptances, guarantees and letters of credit		8,455,218	7,852,973
Other liabilities	33	5,753,810	4,672,447
Taxation payable		601,592	1,700,016
Deferred tax liabilities	34	10,778,908	7,797,703
Retirement benefits obligations	28	<u>4,727,215</u>	<u>3,884,186</u>
		<u>32,529,941</u>	<u>27,505,554</u>
Policyholders' liabilities	35	<u>45,292,329</u>	<u>45,171,156</u>
EQUITY			
Share capital	36	2,927,232	2,927,232
Reserve fund	37	3,159,866	3,159,866
Retained earnings reserve	38	39,052,091	33,052,091
Cumulative remeasurement gains from available-for-sale securities	39	1,974,719	655,370
Capital reserve	40	9,383	9,383
Loan loss reserve	41	2,366,809	2,676,016
Unappropriated profits		<u>41,220,933</u>	<u>35,033,031</u>
		<u>90,711,033</u>	<u>77,512,989</u>
		<u>476,052,178</u>	<u>428,750,143</u>

The financial statements on pages 5 to 100 were approved for issue by the Board of Directors on December 5, 2018 and signed on its behalf by:


 _____ Director
 Jeffrey Hall


 _____ Director
 David Noel


 _____ Director
 Eric Crawford


 _____ Secretary
 Richard Fraser

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

**Consolidated Statement of Changes in Stockholders' Equity
Year ended October 31, 2018**

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	<u>Notes</u>	<u>Share capital</u>	<u>Reserve fund</u>	<u>Retained earnings reserve</u>	<u>Cumulative remeasurement result from available for sale financial assets</u>	<u>Capital reserve</u>	<u>Loan loss reserve</u>	<u>Unappropriated profits</u>	<u>Total</u>
Balances at October 31, 2016		<u>2,927,232</u>	<u>3,159,866</u>	<u>25,952,091</u>	<u>676,371</u>	<u>9,383</u>	<u>3,132,841</u>	<u>31,776,455</u>	<u>67,634,239</u>
Profit for the year		-	-	-	-	-	-	10,628,258	10,628,258
Other comprehensive income:									
Remeasurement of retirement benefits asset/ obligation, net of taxes		-	-	-	-	-	-	4,306,332	4,306,332
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	288,419	-	-	-	288,419
Realised gains on available-for-sale securities, net of taxes		-	-	-	(309,420)	-	-	-	(309,420)
Total other comprehensive income		-	-	-	(21,001)	-	-	4,306,332	4,285,331
Total comprehensive income		-	-	-	(21,001)	-	-	14,934,590	14,913,589
Transfer to retained earnings reserve		-	-	7,100,000	-	-	-	(7,100,000)	-
Transfer to loan loss reserve		-	-	-	-	-	(456,825)	456,825	-
Dividends paid	48	-	-	-	-	-	-	(5,034,839)	(5,034,839)
Net movement for the year		-	-	7,100,000	-	-	(456,825)	(11,678,014)	(5,034,839)
Balances at October 31, 2017		<u>2,927,232</u>	<u>3,159,866</u>	<u>33,052,091</u>	<u>655,370</u>	<u>9,383</u>	<u>2,676,016</u>	<u>35,033,031</u>	<u>77,512,989</u>
Profit for the year		-	-	-	-	-	-	10,563,567	10,563,567
Other comprehensive income:									
Remeasurement of retirement benefits asset/ obligation, net of taxes		-	-	-	-	-	-	5,091,257	5,091,257
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	1,736,565	-	-	-	1,736,565
Realised gains on available-for-sale securities, net of taxes		-	-	-	(417,216)	-	-	-	(417,216)
Total other comprehensive income		-	-	-	1,319,349	-	-	5,091,257	6,410,606
Total comprehensive income		-	-	-	1,319,349	-	-	15,654,824	16,974,173
Transfer to retained earnings reserve		-	-	6,000,000	-	-	-	(6,000,000)	-
Transfer to loan loss reserve		-	-	-	-	-	(309,207)	309,207	-
Dividends paid	48	-	-	-	-	-	-	(3,776,129)	(3,776,129)
Net movement for the year		-	-	6,000,000	-	-	(309,207)	(9,466,922)	(3,776,129)
Balances at October 31, 2018		<u>2,927,232</u>	<u>3,159,866</u>	<u>39,052,091</u>	<u>1,974,719</u>	<u>9,383</u>	<u>2,366,809</u>	<u>41,220,933</u>	<u>90,711,033</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Cash Flows**
Year ended October 31, 2018*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		10,563,567	10,628,258
Adjustments for:			
Taxation charge	14	4,977,371	5,146,076
Depreciation	26	563,073	526,720
Amortisation of intangible assets	27	25,805	21,747
Impairment allowances on loans	23	3,189,420	3,631,363
Loss/(gain) on sale of property, plant and equipment	10	1,878	(46,460)
Increase in retirement benefit assets/obligations	11	<u>(889,679)</u>	<u>(400,902)</u>
		18,431,435	19,506,802
Interest income	6	(26,926,572)	(28,108,667)
Interest expense	6	<u>3,172,731</u>	<u>3,426,123</u>
		(5,322,406)	(5,175,742)
Changes in operating assets and liabilities			
Loans		(19,306,093)	(3,951,729)
Deposits by the public		27,398,575	12,148,690
Policyholders' liabilities		121,173	406,571
Sundry assets, net		(19,198)	195,000
Other liabilities, net		1,081,357	(476,879)
Due to parent company and fellow subsidiaries		827,299	(2,194,571)
Accounts with parent and fellow subsidiaries		(324,421)	357,674
Taxation recoverable		(831,181)	(306,877)
Due to other banks and financial institutions		754,950	161,091
Deposit with Bank of Jamaica maturing after ninety days		655,915	(276,266)
Statutory reserves at Bank of Jamaica		(3,379,070)	(7,411,913)
Retirement benefits asset /obligations		<u>(126,569)</u>	<u>(101,496)</u>
		1,530,331	(6,626,447)
Interest received		27,004,949	28,238,956
Interest paid		(3,195,123)	(3,432,027)
Taxation paid		<u>(5,972,288)</u>	<u>(5,153,029)</u>
Net cash provided by operating activities		<u>19,367,869</u>	<u>13,027,453</u>
Cash flows from investing activities			
Investment securities		(19,757,565)	(2,186,170)
Pledged assets		(54,353)	(616,028)
Proceeds of sale of property, plant and equipment		3,665	80,306
Purchase of property, plant and equipment	26	(543,792)	(419,758)
Purchase of intangible assets	27	<u>(14,767)</u>	<u>(16,986)</u>
Net cash used in investing activities		<u>(20,366,812)</u>	<u>(3,158,636)</u>
Net cash flows from operating and investing activities (carried forward to page 11)		<u>(998,943)</u>	<u>9,868,817</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Cash Flows (Continued)****Year ended October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Cash flows from operating and investing activities (brought forward from page 10)		(<u>998,943</u>)	<u>9,868,817</u>
Cash flows from financing activity			
Dividends paid	48	(<u>3,776,129</u>)	(<u>5,034,839</u>)
Effect of exchange rate changes on cash and cash equivalents		<u>324,421</u>	(<u>357,674</u>)
Net (decrease)/ increase in cash and cash equivalents		(4,450,651)	4,476,304
Cash and cash equivalents at beginning of year		<u>74,211,954</u>	<u>69,735,650</u>
Cash and cash equivalents at end of year	17	<u>69,761,303</u>	<u>74,211,954</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Revenue and Expenses****Year ended October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Net interest income and other revenue			
Net interest income			
Interest from loans and deposits with banks		19,156,547	19,692,019
Income from securities		<u>2,275,404</u>	<u>2,431,532</u>
Total interest income	6	21,431,951	22,123,551
Interest expense	6	<u>(1,058,349)</u>	<u>(1,260,522)</u>
Net interest income		20,373,602	20,863,029
Impairment losses on loans	23	<u>(1,865,749)</u>	<u>(1,968,006)</u>
Net interest income after impairment losses on loans		<u>18,507,853</u>	<u>18,895,023</u>
Other income			
Fee and commission income	7	13,028,558	12,721,417
Fee and commission expense	7	<u>(6,767,110)</u>	<u>(5,787,463)</u>
Net fee and commission income		6,261,448	6,933,954
Net gains on foreign currency activities	8	3,923,397	2,574,246
Other revenue	10	1,443,707	3,302,027
Net gains/(losses) on financial assets		<u>352,296</u>	<u>(37,369)</u>
		<u>11,980,848</u>	<u>12,772,858</u>
		<u>30,488,701</u>	<u>31,667,881</u>
Expenses			
Salaries, pension contributions and other staff benefits	11	8,903,586	9,121,556
Property expenses, including depreciation		1,992,299	1,944,859
Asset tax		769,345	730,211
Other operating expenses		<u>7,210,371</u>	<u>6,429,379</u>
	12	<u>18,875,601</u>	<u>18,226,005</u>
Profit before taxation	13	11,613,100	13,441,876
Taxation	14	<u>(3,453,051)</u>	<u>(3,742,858)</u>
Profit for the year		<u>8,160,049</u>	<u>9,699,018</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Comprehensive Income****Year ended October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Profit for the year		<u>8,160,049</u>	<u>9,699,018</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefits plans	28	7,636,885	6,459,498
Taxation	34	<u>(2,545,628)</u>	<u>(2,153,166)</u>
		<u>5,091,257</u>	<u>4,306,332</u>
Items that are or may be reclassified to profit or loss			
Unrealised losses on available-for-sale financial assets		(29,935)	(45,870)
Realised (gains)/losses on available-for-sale financial assets transferred to profit		<u>(234,889)</u>	<u>63,945</u>
Taxation	34	<u>(264,824)</u>	18,075
		<u>146,991</u>	<u>(4,454)</u>
		<u>(117,833)</u>	<u>13,621</u>
Other comprehensive income, net of tax		<u>4,973,424</u>	<u>4,319,953</u>
Total comprehensive income		<u>13,133,473</u>	<u>14,018,971</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Financial Position****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*


	Notes	2018	2017
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	16	63,104,357	58,658,104
Government and bank notes other than Jamaican	17	898,300	890,257
Due from other banks	18	16,772,219	17,966,195
Accounts with parent and fellow subsidiaries	19	<u>22,902,739</u>	<u>27,825,927</u>
		<u>103,677,615</u>	<u>105,340,483</u>
Government securities purchased under resale agreements	20	<u>300,473</u>	<u>3,085,471</u>
Pledged assets	21	<u>1,554,672</u>	<u>1,507,981</u>
Loans, after allowance for impairment losses	22	<u>152,824,778</u>	<u>136,805,262</u>
Investment securities	24	<u>78,343,689</u>	<u>58,083,882</u>
Investment in subsidiaries		<u>220,000</u>	<u>220,000</u>
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		8,270,584	6,624,441
Taxation recoverable		822,647	406,304
Sundry assets	25	1,732,636	1,713,586
Property, plant and equipment	26	5,264,314	5,285,299
Intangible assets	27	49,654	58,691
Retirement benefits asset	28	<u>34,517,087</u>	<u>25,020,925</u>
		<u>50,656,922</u>	<u>39,109,246</u>
		<u>387,578,149</u>	<u>344,152,325</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Financial Position (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
LIABILITIES			
Deposits by the public	29	278,976,418	251,314,606
Due to other banks and financial institutions	30	1,182,434	752,079
Due to parent and ultimate parent company	31	7,539,234	6,042,452
Due to subsidiaries	32	1,352,451	2,204,019
Due to fellow subsidiaries	32	<u>1,743,281</u>	<u>2,075,820</u>
		<u>290,793,818</u>	<u>262,388,976</u>
Other liabilities			
Cheques and other instruments in transit		2,461,911	1,795,603
Acceptances, guarantees and letters of credit		8,270,584	6,624,441
Other liabilities	33	5,468,407	4,417,895
Taxation payable		454,077	1,487,641
Deferred tax liabilities	34	9,851,607	7,360,397
Retirement benefits obligations	28	<u>4,727,215</u>	<u>3,884,186</u>
		<u>31,233,801</u>	<u>25,570,163</u>
EQUITY			
Share capital	36	2,927,232	2,927,232
Reserve fund	37	2,930,616	2,930,616
Retained earnings reserve	38	34,101,341	28,101,341
Cumulative remeasurement result from available-for-sale securities	39	41,994	159,827
Capital reserve	40	42,087	42,087
Loan loss reserve	41	1,701,284	2,107,665
Unappropriated profits		<u>23,805,976</u>	<u>19,924,418</u>
		<u>65,550,530</u>	<u>56,193,186</u>
		<u>387,578,149</u>	<u>344,152,325</u>


The financial statements on pages 5 to 100 were approved for issue by the Board of Directors on December 5, 2018 and signed on its behalf by:



Jeffrey Hall Director



David Noel Director



Eric Crawford Director



Richard Fraser Secretary

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

**Statement of Changes in Stockholders' Equity
Year ended October 31, 2018**

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	Share capital	Reserve fund	Retained earnings reserve	Cumulative remeasurement result from available for sale financial assets	Capital reserve	Loan loss reserve	Unappropriated profits	Total
Balances at October 31, 2016		<u>2,927,232</u>	<u>2,930,616</u>	<u>21,601,341</u>	<u>146,206</u>	<u>42,087</u>	<u>2,674,162</u>	<u>16,887,410</u>	<u>47,209,054</u>
Profit for the year		-	-	-	-	-	-	9,699,018	9,699,018
Other comprehensive income:									
Remeasurement of retirement benefits asset/obligation, net of taxes		-	-	-	-	-	-	4,306,332	4,306,332
Unrealised losses on available-for-sale securities, net of taxes		-	-	-	(29,022)	-	-	-	(29,022)
Realised losses on available-for-sale securities transferred, net of taxes		-	-	-	42,643	-	-	-	42,643
Total other comprehensive income		-	-	-	13,621	-	-	4,306,332	4,319,953
Total comprehensive income		-	-	-	13,621	-	-	14,005,350	14,018,971
Transfer to retained earnings reserve		-	-	6,500,000	-	-	-	(6,500,000)	-
Transfer to loan loss reserve		-	-	-	-	-	(566,497)	566,497	-
Dividends paid	48	-	-	-	-	-	-	(5,034,839)	(5,034,839)
Net movement for the year		-	-	6,500,000	-	-	(566,497)	(10,968,342)	(5,034,839)
Balances at October 31, 2017		<u>2,927,232</u>	<u>2,930,616</u>	<u>28,101,341</u>	<u>159,827</u>	<u>42,087</u>	<u>2,107,665</u>	<u>19,924,418</u>	<u>56,193,186</u>
Profit for the year		-	-	-	-	-	-	8,160,049	8,160,049
Other comprehensive income:									
Remeasurement of retirement benefits /obligations, net of taxes		-	-	-	-	-	-	5,091,257	5,091,257
Unrealised losses on available-for-sale securities, net of taxes		-	-	-	(19,955)	-	-	-	(19,955)
Realised gains on available-for-sale securities transferred, net of taxes		-	-	-	(97,878)	-	-	-	(97,878)
Total other comprehensive income		-	-	-	(117,833)	-	-	5,091,257	4,973,424
Total comprehensive income		-	-	-	(117,833)	-	-	13,251,306	13,133,473
Transfer to retained earnings reserve		-	-	6,000,000	-	-	-	(6,000,000)	-
Transfer to loan loss reserve		-	-	-	-	-	(406,381)	406,381	-
Dividends paid	48	-	-	-	-	-	-	(3,776,129)	(3,776,129)
Net movement for the year		-	-	6,000,000	-	-	(406,381)	(9,369,748)	(3,776,129)
Balances at October 31, 2018		<u>2,927,232</u>	<u>2,930,616</u>	<u>34,101,341</u>	<u>41,994</u>	<u>42,087</u>	<u>1,701,284</u>	<u>23,805,976</u>	<u>65,550,530</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Cash Flows**
Year ended October 31, 2018*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		8,160,049	9,699,018
Adjustments for:			
Taxation charge	14	3,453,051	3,742,858
Depreciation	26	558,406	521,926
Amortisation of intangible assets	27	23,804	19,747
Impairment losses on loans	23	3,126,678	3,510,555
Loss/(gain) on sale of property, plant and equipment		1,878	(46,460)
Increase in retirement benefits asset/obligation	11	<u>(889,679)</u>	<u>(400,902)</u>
		14,434,187	17,046,742
Interest income	6	(21,431,951)	(22,123,551)
Interest expense	6	<u>1,058,349</u>	<u>1,260,522</u>
		(5,939,415)	(3,816,287)
Changes in operating assets and liabilities			
Loans		(19,171,109)	(685,428)
Deposits by the public		27,655,672	12,112,281
Statutory reserves at Bank of Jamaica		(3,375,883)	(7,406,943)
Other liabilities, net		1,050,512	(567,343)
Due to parent company and fellow subsidiaries		325,410	(1,604,249)
Amounts with parents and fellow subsidiaries		(324,522)	357,852
Amounts due to other banks and financial institutions		430,355	(377,586)
Other assets, net		(19,049)	202,198
Securities sold under repurchase agreements		-	(911,000)
Taxation recoverable		(416,343)	(70,125)
Retirement benefits asset/obligations		<u>(126,569)</u>	<u>(101,496)</u>
		89,059	(2,868,126)
Interest received		21,479,507	22,131,341
Interest paid		(1,064,943)	(1,283,603)
Taxation paid		<u>(4,394,043)</u>	<u>(3,695,384)</u>
Net cash provided by operating activities		<u>16,109,580</u>	<u>14,284,228</u>
Cash flows from investing activities			
Investment securities		(20,542,224)	(3,014,989)
Pledged assets		(54,354)	344,256
Proceeds from sale of property, plant and equipment		3,666	80,306
Purchase of property, plant and equipment	26	(542,965)	(418,993)
Purchase of intangible assets	27	<u>(14,767)</u>	<u>(10,301)</u>
Net cash used by investing activities		<u>(21,150,644)</u>	<u>(3,019,721)</u>
Net cash flows from operating and investing activities (carried forward to page 18)		<u>(5,041,064)</u>	<u>11,264,507</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Cash Flows (Continued)****Year ended October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2018	2017
Cash flows from operating and investing activities (brought forward from page 17)		(<u>5,041,064</u>)	<u>11,264,507</u>
Cash flows from financing activity			
Dividends paid, being net cash used by financing activity	48	(<u>3,776,129</u>)	(<u>5,034,839</u>)
Effect of exchange rate changes on cash and cash equivalents		<u>324,522</u>	(<u>357,854</u>)
Net (decrease)/increase in cash and cash equivalents		(8,492,671)	5,871,814
Cash and cash equivalents at beginning of year		<u>72,222,129</u>	<u>66,350,315</u>
Cash and cash equivalents at end of year	17	<u>63,729,458</u>	<u>72,222,129</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, Regulation and Licence

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

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

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

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

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

*The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2018.

2. Summary of significant accounting policies

(a) Basis of preparation

- (i) Statement of compliance

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

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

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

New, revised and amended standards and interpretations that are not yet effective

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)**

- (i) Statement of compliance (continued)

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

- (i) The Group is required to adopt IFRS 9, *Financial Instruments* effective November 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Accordingly, the basis of measurement for the Group's financial assets may change. The standard contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The Group does not expect the implementation to result in a significant change in the classification and measurement of the group's financial assets.

Impairment

The adoption of IFRS 9 will have a significant impact on the Group's impairment methodology. IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The probability weighted outcome considers multiple scenarios based on reasonable and supportable forecasts. The new impairment model will apply to financial assets measured at amortised cost or FVOCI.

Under IFRS 9, loss allowances will be measured on either of the following stages, based on the extent of credit deterioration since origination:

- Stage 1 - 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date. This stage 1 approach differs from the current approach which estimates a collective allowance to recognise losses that have been incurred but not reported on performing loans.
- Stage 2 - Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. Provisions are higher at this stage because of an increase in risk and the impact of a longer time horizon being compared to 12 months in Stage 1; and

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and amended standards and interpretations that are not yet effective (continued)****(i) IFRS 9, *Financial Instruments* (continued)***Impairment (continued)*

- Stage 3 - Financial assets that have objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

Transition impact

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at November 1, 2018.
- The Group will determine the business model within which a financial asset is held based on the facts and circumstances that exist at the date of initial application.

The Group estimates the IFRS 9 transition will reduce retained earnings by approximately \$600 million after-tax as at November 1, 2018. The estimated impact relates primarily to the implementation of the ECL requirements. The Group continues to revise, refine and validate the impairment model and related process controls leading up to January 31, 2019 reporting.

- (ii) The Group is required to adopt IFRS 15, *Revenue from Contracts with Customers* from November 1, 2018. The standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11, *Construction Contracts* and IFRIC 13, *Customer Loyalty Programmes*.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)**

- (i) Statement of compliance (continued)

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

- (ii) IFRS 15
- Revenue from Contracts with Customers*
- (continued)

The standard introduces a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, therefore, will not impact the majority of the Group's revenue, including interest income, interest expense, trading revenue and securities gains.

Management has assessed that the main impact of this standard is in respect of fees and commission income. While the assessment is still ongoing, IFRS 15 is not expected to have a material impact on the timing and recognition of fee income.

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

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

IFRS 16 will result in leases being recorded on the Group's balance sheet, including those currently classified as operating leases. The Group is currently assessing the impact that this new standard will have on its 2020 financial statements.

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and amended standards and interpretations that are not yet effective (continued)****(iv) IFRS 17, *Insurance Contracts* (continued):**

- 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.
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.
- recognises and measures groups of insurance contracts at:
 - a) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
 - b) an amount representing the unearned profit in the group of contracts (the contractual service margin)
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss making, an entity recognises the loss immediately.
- presents separately insurance revenue (that excludes the receipt of repayment of investment components) and insurance finance income or expenses;
- includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)**

- (i) Statement of compliance (continued)

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

- (v) Amendments to IFRS 4,
- Insurance Contracts*
- (continued)

- (i) Temporary exemption from IFRS 9 (continued):

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

- (ii) Overlay approach:

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

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

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

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

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

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

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

- (vii) IFRIC 23,
- Uncertainty Over Income Tax Treatments*
- , is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and amended standards and interpretations that are not yet effective (continued)****(vii) IFRIC 23, *Uncertainty Over Income Tax Treatments* (continued)**

An entity has to consider whether it is probable that the relevant tax authority would accept the tax treatment, or group of tax treatments, that is adopted in its income tax filing.

If the entity concludes that it is probable that the tax authority will accept a particular tax treatment in the tax return, the entity will determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings and record the same amount in the financial statements. The entity will disclose uncertainty.

If facts and circumstances change, the entity is required to reassess the judgements and estimates applied.

IFRIC 23 reinforces the need to comply with existing disclosure requirements regarding:

- judgements made in the process of applying accounting policy to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- assumptions and other estimates used; and
- potential impact of uncertainties that are not reflected in the financial statements.

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

(viii) Amendments to IFRS 9, *Financial Instruments*, effective retrospectively for annual periods beginning on or after January 1, 2019 clarifies the treatment of:**(i) Prepayment features with negative compensation:**

Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI). The prepayment amount substantially represents unpaid principal and interest and reasonable compensation. Reasonable compensation may be positive or negative. Prior to this amendment, financial assets with this negative compensation feature would have failed the solely payments of principal and interest test and be mandatorily measured at fair value through profit or loss.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and amended standards and interpretations that are not yet effective (continued)****(viii) Amendments to IFRS 9, *Financial Instruments* (continued)****(ii) Modifications to financial liabilities:**

If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has not been substantially modified. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

(b) Basis of consolidation

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

Subsidiaries are those entities controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(b) Basis of consolidation (continued)**

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

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

(c) Segment reporting

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

(d) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the reporting date. Foreign currency non-monetary items that are measured at historical cost are translated at historical rates. Foreign currency items measured at fair value are translated into the functional currency using the rate of exchange at the date the fair value was determined.

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(e) Revenue recognition (continued)****(i) Interest income (continued)**

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

(ii) Fee and commission

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

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

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

(iii) Premium income

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

(iv) Dividend income

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

(f) Interest expense

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(g) Insurance contracts****(i) Classification**

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

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

(ii) Recognition and measurement

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

Under contracts that bear an investment option, the investment portion of insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by interest credited and are decreased by policy administration fees, mortality charges and any withdrawals or surrenders; the resulting liability is called the Life Assurance Fund.

Income consists of fees deducted for mortality, policy administration, withdrawals and surrenders. Interest credited to the policy and benefit claims in excess of the cash surrender values incurred in the period are recorded as expenses in the statement of revenue and expenses.

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

(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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(j) Policyholders' liabilities**

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

(k) Taxation

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

(i) Current income tax

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

(ii) Deferred tax

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods.

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(l) Financial assets and liabilities**

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

(i) Recognition

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

(ii) Derecognition

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

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

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

(iii) Measurement

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(m) Financial assets classification and impairment****(i) Classification**

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

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

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

(2) Loans and receivables

See details at note 2(q).

(3) Held-to-maturity

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

(4) Available-for-sale

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(m) Financial assets classification and impairment (continued)****(ii) Identification and measurement of impairment**

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

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

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(m) Financial assets classification and impairment (continued)****(ii) Identification and measurement of impairment (continued)**

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

(n) Embedded derivatives

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

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

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

(o) 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.

(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 from the Group's financial statements but is segregated as pledged assets. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective interest method.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(q) Loans and receivables and allowance for impairment losses**

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

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

The Group considers a loan to be impaired when there is objective evidence of impairment as a result of one or more loss events that occurred after the date of initial recognition of the loan and the loss event has an impact on the estimated future cash flows of the loan that can be reliably estimated.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. Objective evidence is represented by observable data that comes to the attention of the Group and includes events that indicate:

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(r) Acceptances and guarantees**

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

(s) Property, plant and equipment

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

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

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

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

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

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

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

(t) Investment in subsidiaries

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(u) Intangible assets**

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

(v) Employee benefits

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

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

Post-employment benefits, termination benefits and equity compensation benefits are accounted for as described below. Other long-term benefits are not considered material and are expensed when incurred.

(i) Defined benefits plan

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

The asset or liability in respect of the defined benefits plan is the difference between the present value of the defined benefits obligation 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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(v) Employee benefits (continued)****(i) Defined benefits plan (continued)**

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

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

(ii) Termination benefits

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits when it is demonstrably committed to either terminate the service of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the reporting date are discounted to present value.

(iii) Other post-retirement obligations

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

(iv) Equity compensation benefits

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

The amount contributed to the ESOP trust (note 49) 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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(v) Employee benefits (continued)****(iv) Equity compensation benefits (continued)**

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

(v) Annual leave

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

(w) Borrowings

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

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

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

(ii) Dividends

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

(y) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(z) 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.

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

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

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

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

The Group makes estimates, assumptions and judgements that affect the reported amounts of and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements. Amounts and disclosures based on these estimates, assumptions and judgements may be different from actual outcomes, and these differences may be reported in the financial statements of the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Critical accounting estimates, and judgements made in applying accounting policies (continued)****(i) Impairment losses on loans and advances (continued)**

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Valuation of financial instruments

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

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

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

(iii) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation, which is outlined in note 2(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 35.

(iv) Pension and other post-employment benefits

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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

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

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

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

(v) Income taxes

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

4. Responsibilities of the appointed actuary and external auditors

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

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

5. Segmental financial information

The Group is organised into five main business segments:

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***5. Segmental financial information (continued)**

The Group is organised into five main business segments (continued):

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	The Group					Group
	2018					
	Retail	Banking Corporate and Commercial	Treasury	Insurance services	Eliminations	
Net external revenues	17,992,429	7,793,014	7,044,714	4,980,527	-	37,810,684
Revenue from other segments	<u>652,218</u>	<u>1,634,393</u>	<u>(2,354,542)</u>	<u>55,597</u>	<u>12,334</u>	<u>-</u>
Total revenues	18,644,647	9,427,407	4,690,172	5,036,124	12,334	37,810,684
Total expenses and losses	<u>(13,781,838)</u>	<u>(6,673,444)</u>	<u>(586,333)</u>	<u>(1,228,131)</u>	<u>-</u>	<u>(22,269,746)</u>
Profit before tax	<u>4,862,809</u>	<u>2,753,963</u>	<u>4,103,839</u>	<u>3,807,993</u>	<u>12,334</u>	15,540,938
Taxation						<u>(4,977,371)</u>
Profit for the year						<u>10,563,567</u>
Segment assets	<u>120,517,664</u>	<u>82,562,123</u>	<u>177,823,742</u>	<u>60,359,317</u>	<u>(2,332,692)</u>	438,930,154
Unallocated assets						<u>37,122,024</u>
Total assets						<u>476,052,178</u>
Segment liabilities	<u>161,421,613</u>	<u>159,070,223</u>	<u>-</u>	<u>46,297,163</u>	<u>(1,949,160)</u>	364,839,839
Unallocated liabilities						<u>20,501,306</u>
Total liabilities						<u>385,341,145</u>
Other segment items:						
Capital expenditure	339,153	219,406	-	-	-	558,559
Impairment losses on loans	1,887,453	16,938	-	-	-	1,904,391
Depreciation and amortisation	<u>387,412</u>	<u>196,496</u>	<u>-</u>	<u>4,970</u>	<u>-</u>	<u>588,878</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	The Group					
	2017					
	<u>Retail</u>	<u>Banking Corporate and Commercial</u>	<u>Treasury</u>	<u>Insurance services</u>	<u>Eliminations</u>	<u>Group</u>
Net external revenues	18,911,356	7,900,452	5,463,565	5,375,758	-	37,651,131
Revenue from other segments	(310,289)	2,208,796	(1,993,534)	69,461	25,566	-
Total revenues	18,601,067	10,109,248	3,470,031	5,445,219	25,566	37,651,131
Total expenses and losses	(13,506,688)	(6,525,093)	(556,335)	(1,288,681)	-	(21,876,797)
Profit before tax	<u>5,094,379</u>	<u>3,584,155</u>	<u>2,913,696</u>	<u>4,156,538</u>	<u>25,566</u>	15,774,334
Taxation						(5,146,076)
Profit for the year						<u>10,628,258</u>
Segment assets	<u>114,268,858</u>	<u>70,042,301</u>	<u>163,571,362</u>	<u>57,151,482</u>	<u>(3,483,366)</u>	401,550,637
Unallocated assets						27,199,506
Total assets						<u>428,750,143</u>
Segment liabilities	<u>151,096,959</u>	<u>140,227,828</u>	<u>-</u>	<u>45,854,991</u>	<u>(3,092,743)</u>	334,087,035
Unallocated liabilities						17,150,119
Total liabilities						<u>351,237,154</u>
Other segment items:						
Capital expenditure	185,755	243,537	-	7,452	-	436,744
Impairment losses on loans	1,939,785	143,263	-	-	-	2,083,048
Depreciation and amortisation	<u>360,489</u>	<u>182,814</u>	<u>-</u>	<u>5,164</u>	<u>-</u>	<u>548,467</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***6. Net interest income**

	The Group		The Bank	
	2018	2017	2018	2017
Interest income:				
Deposits with banks and other financial institutions	1,303,450	3,632,783	1,229,721	1,014,985
Investment securities	5,020,170	5,556,529	2,215,806	2,251,018
Reverse repurchase agreements	48,126	221,821	59,599	180,514
Loans and advances	<u>20,554,826</u>	<u>18,697,534</u>	<u>17,926,825</u>	<u>18,677,034</u>
	<u>26,926,572</u>	<u>28,108,667</u>	<u>21,431,951</u>	<u>22,123,551</u>
Interest expense:				
Banks and customers	1,752,367	1,807,679	1,058,097	1,228,901
Repurchase agreements	-	278	245	30,990
Policyholders' liabilities	1,400,860	1,533,751	-	-
Other	<u>19,504</u>	<u>84,415</u>	<u>7</u>	<u>631</u>
	<u>3,172,731</u>	<u>3,426,123</u>	<u>1,058,349</u>	<u>1,260,522</u>
Net interest income	<u>23,753,841</u>	<u>24,682,544</u>	<u>20,373,602</u>	<u>20,863,029</u>

7. Net fee and commission income

	The Group		The Bank	
	2018	2017	2018	2017
Fee and commission income:				
Retail banking fees	5,057,306	5,193,872	5,021,138	5,160,823
Credit related fees	1,295,516	1,221,435	1,247,564	1,160,498
Commercial and depository fees	6,759,856	6,400,096	6,759,856	6,400,096
Insurance related fees	<u>231,770</u>	<u>199,061</u>	<u>-</u>	<u>-</u>
	13,344,448	13,014,464	13,028,558	12,721,417
Fee and commission expenses	<u>(6,767,110)</u>	<u>(5,787,463)</u>	<u>(6,767,110)</u>	<u>(5,787,463)</u>
	<u>6,577,338</u>	<u>7,227,001</u>	<u>6,261,448</u>	<u>6,933,954</u>

8. Net gains on foreign currency activities

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***9. Insurance revenue**

	<u>The Group</u>	
	<u>2018</u>	<u>2017</u>
Gross premiums		
Individual life	932,756	846,574
Group life	<u>1,353,286</u>	<u>1,277,062</u>
	2,286,042	2,123,636
Reinsurance ceded	<u>(377)</u>	<u>(539)</u>
	2,285,665	2,123,097
Changes in actuarial reserves	<u>645,962</u>	<u>661,935</u>
	<u>2,931,627</u>	<u>2,785,032</u>

10. Other (expense)/revenue

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net (loss)/gain on sale of property, plant and equipment	(1,878)	46,460	(1,878)	46,460
Dividend income	-	-	1,445,585	3,255,445
Other	<u>-</u>	<u>58</u>	<u>-</u>	<u>122</u>
	<u>(1,878)</u>	<u>46,518</u>	<u>1,443,707</u>	<u>3,302,027</u>

11. Salaries, pension contributions and other staff benefits

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Wages and salaries	8,297,165	7,984,141	7,769,956	7,498,418
Statutory payroll contributions	748,356	708,228	711,119	669,427
Other staff benefits	<u>1,381,989</u>	<u>1,435,905</u>	<u>1,312,190</u>	<u>1,354,613</u>
	<u>10,427,510</u>	<u>10,128,274</u>	<u>9,793,265</u>	<u>9,522,458</u>
Post employment benefits				
Pension credit on defined benefit plan [note 28(a)(v)]	(1,445,568)	(850,235)	(1,445,568)	(850,235)
Other post-retirement benefits cost [note 28(b)(ii)]	<u>555,889</u>	<u>449,333</u>	<u>555,889</u>	<u>449,333</u>
	<u>(889,679)</u>	<u>(400,902)</u>	<u>(889,679)</u>	<u>(400,902)</u>
Total (note 12)	<u>9,537,831</u>	<u>9,727,372</u>	<u>8,903,586</u>	<u>9,121,556</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***12. Expenses by nature**

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Salaries, pension contributions and other staff benefits (note 11)	9,537,831	9,727,372	8,903,586	9,121,556
Property expenses, including depreciation	2,073,776	2,026,751	1,992,299	1,944,859
Systems related expenses	1,478,335	1,481,700	1,436,485	1,395,851
Insurance claims and benefits	191,616	199,686	-	-
Transportation and communication	939,854	1,149,982	909,843	1,107,496
Marketing and advertising	445,244	647,276	431,274	592,247
Professional, legal and consultancy fees	504,823	415,920	457,979	364,039
Technical and support services	2,716,929	1,686,687	2,572,032	1,613,206
Asset tax	973,116	927,142	769,345	730,211
Licensing and fees paid to regulators	104,651	100,270	68,830	64,497
Deposit insurance	436,148	410,412	414,306	391,060
Stationery	311,140	372,564	303,073	363,212
Other operating expenses	651,892	647,987	616,549	537,771
	<u>20,365,355</u>	<u>19,793,749</u>	<u>18,875,601</u>	<u>18,226,005</u>

13. Profit before taxation

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Auditors' remuneration	33,496	33,196	23,653	23,653
Depreciation of property, plant and equipment	563,073	526,720	558,406	521,926
Amortisation of intangible assets	25,805	21,747	23,804	19,747
Directors' emoluments:				
Fees	4,809	7,240	1,478	1,564
Management remuneration	58,235	57,236	58,235	57,236
Operating lease rentals	<u>373,550</u>	<u>365,687</u>	<u>325,114</u>	<u>317,752</u>

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

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current income tax:				
Income tax at 33 $\frac{1}{3}$ %	3,366,149	3,803,189	3,366,149	3,803,189
Income tax at 30%	455,918	410,888	-	-
Income tax at 25%	1,057,072	993,332	-	-
Adjustment for over provision of prior year's charge	(5,275)	-	(5,671)	-
	4,873,864	5,207,409	3,360,478	3,803,189
Deferred income tax (note 34)	<u>103,507</u>	<u>(61,333)</u>	<u>92,573</u>	<u>(60,331)</u>
	<u>4,977,371</u>	<u>5,146,076</u>	<u>3,453,051</u>	<u>3,742,858</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***14. Taxation (continued)**

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

	The Group		The Bank	
	2018	2017	2018	2017
Profit before taxation	<u>15,540,938</u>	<u>15,774,334</u>	<u>11,613,100</u>	<u>13,441,876</u>
Tax calculated at 33 $\frac{1}{3}$ %	5,180,313	5,258,111	3,871,033	4,480,625
Adjusted for the tax effects of:				
Different tax regimes applicable to life insurance and mortgage financing subsidiaries	(262,709)	(450,895)	-	-
Interest/dividend from tax free investments	(19,055)	(25,031)	(500,917)	(1,110,183)
Expenses not deductible for tax purposes	278,312	441,354	257,750	244,304
Prior year over provision	(5,275)	-	(5,671)	-
Other charges and allowances	(194,215)	(77,463)	(169,144)	128,112
Taxation expense	<u>4,977,371</u>	<u>5,146,076</u>	<u>3,453,051</u>	<u>3,742,858</u>
Effective tax rate	<u>32.03%</u>	<u>32.62%</u>	<u>29.73%</u>	<u>27.84%</u>

15. Earnings per stock unit

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

	The Group	
	2018	2017
Profit for the year attributable to stockholders	<u>10,563,567</u>	<u>10,628,258</u>
Weighted average number of ordinary stock units in issue ('000)	<u>2,927,232</u>	<u>2,927,232</u>
Basic earnings per stock unit (expressed in \$)	<u>3.61</u>	<u>3.63</u>

16. Cash and balances at Bank of Jamaica

	The Group		The Bank	
	2018	2017	2018	2017
Statutory reserves with Bank of Jamaica				
– non interest-bearing (note 17)	37,885,689	34,506,619	37,756,363	34,380,481
Cash in hand and at bank	<u>31,139,940</u>	<u>26,632,457</u>	<u>25,347,994</u>	<u>24,277,623</u>
	<u>69,025,629</u>	<u>61,139,076</u>	<u>63,104,357</u>	<u>58,658,104</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***16. Cash and balances at Bank of Jamaica (continued)**

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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Banking Services Act, 2014, Section 43	BNSJ	12%	12%	15%	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.

17. Cash and cash equivalents

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Cash resources	109,598,887	107,821,455	103,677,615	105,340,483
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 16)	(37,885,689)	(34,506,619)	(37,756,363)	(34,380,481)
Other balances at				
Bank of Jamaica	-	(655,915)	-	-
Cheques and other instruments in transit	(2,213,198)	(1,598,229)	(2,461,911)	(1,795,603)
Accrued interest	(<u>38,697</u>)	(<u>28,738</u>)	(<u>29,883</u>)	(<u>22,270</u>)
	69,461,303	71,031,954	63,429,458	69,142,129
Add other cash equivalent balances:				
Repurchase agreement less than ninety days (note 20)	<u>300,000</u>	<u>3,180,000</u>	<u>300,000</u>	<u>3,080,000</u>
Cash and cash equivalents	<u>69,761,303</u>	<u>74,211,954</u>	<u>63,729,458</u>	<u>72,222,129</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***17. Cash and cash equivalents (continued)**

	The Group		The Bank	
	2018	2017	2018	2017
Cash and cash equivalent is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	31,139,940	25,976,542	25,347,994	24,277,623
Government and bank notes other than Jamaican	898,300	890,257	898,300	890,257
Amounts due from other banks	16,772,219	17,966,195	16,772,219	17,966,195
Accounts with parent and fellow subsidiaries	22,902,739	27,825,927	22,902,739	27,825,927
Repurchase agreements	300,000	3,180,000	300,000	3,080,000
Accrued interest	(38,697)	(28,738)	(29,883)	(22,270)
	71,974,501	75,810,183	66,191,369	74,017,732
Less: Cheques and other instruments in transit	(2,213,198)	(1,598,229)	(2,461,911)	(1,795,603)
	69,761,303	74,211,954	63,729,458	72,222,129

18. Due from other banks

	The Group		The Bank	
	2018	2017	2018	2017
Items in course of collection from other banks	349,952	574,205	349,952	574,205
Placements with other banks	16,422,267	17,391,990	16,422,267	17,391,990
	16,772,219	17,966,195	16,772,219	17,966,195

19. Accounts with parent and fellow subsidiaries

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

20. Government securities purchased under resale agreements

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

	The Group		The Bank	
	2018	2017	2018	2017
Reverse repurchase agreements	300,000	3,180,000	300,000	3,080,000
Interest receivable	473	5,932	473	5,471
	300,473	3,185,932	300,473	3,085,471

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***20. Government securities purchased under resale agreements (continued)**

Included in Government securities purchased under resale agreements are securities with an original maturity less than ninety days, amounting to \$300,000 (2017: \$3,180,000) for the Group and \$300,000 (2017: \$3,080,000) for the Bank, which are regarded as cash equivalents for the purposes of the statement of cash flows (see note 17).

The fair value of collateral held pursuant to reverse repurchase agreements is \$315,068 (2017: \$3,331,238) for the Group and \$315,068 (2017: \$3,226,252) for the Bank.

21. Pledged assets

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Securities with regulators, clearing house and other financial institutions	<u>1,554,672</u>	<u>1,507,981</u>	<u>1,554,672</u>	<u>1,507,981</u>

Included in pledged assets are:

- (a) Government issued securities held as available-for-sale, amounting to \$1,554,672 (2017: \$1,507,981) for the Group and \$1,554,672 (2017: \$1,507,981) for the Bank.
- (b) Debt securities which are regarded as cash equivalents for the purposes of the statement of cash flows amount to nil for both the Group and the Bank.

22. Loans, after allowance for impairment losses

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Business and Government	72,430,744	61,830,726	72,430,744	61,830,726
Personal and credit cards	77,969,606	76,285,806	76,614,286	74,717,124
Residential mortgages	33,309,094	29,582,997	5,022,895	1,492,780
Interest receivable	<u>1,020,944</u>	<u>1,021,342</u>	<u>784,151</u>	<u>809,066</u>
Total	184,730,388	168,720,871	154,852,076	138,849,696
Allowance for impairment losses (note 23)	<u>(2,204,887)</u>	<u>(2,311,650)</u>	<u>(2,027,298)</u>	<u>(2,044,434)</u>
	<u>182,525,501</u>	<u>166,409,221</u>	<u>152,824,778</u>	<u>136,805,262</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***22. Loans, after allowance for impairment losses (continued)**

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Neither past due nor impaired	<u>170,508,146</u>	<u>149,570,694</u>	<u>144,172,264</u>	<u>124,098,491</u>
Past due but not impaired				
Past due 1-30 days	6,608,328	10,030,423	4,898,992	7,646,371
Past due 31-60 days	2,053,945	2,542,793	1,616,278	2,086,107
Past due 61-90 days	<u>861,830</u>	<u>1,050,099</u>	<u>680,161</u>	<u>831,442</u>
	<u>9,524,103</u>	<u>13,623,315</u>	<u>7,195,431</u>	<u>10,563,920</u>
Impaired:				
Past due more than 90 days	<u>3,677,195</u>	<u>4,505,520</u>	<u>2,700,230</u>	<u>3,378,219</u>
Interest receivable	<u>1,020,944</u>	<u>1,021,342</u>	<u>784,151</u>	<u>809,066</u>
Gross loan portfolio	184,730,388	168,720,871	154,852,076	138,849,696
Allowance for impairment losses	<u>(2,204,887)</u>	<u>(2,311,650)</u>	<u>(2,027,298)</u>	<u>(2,044,434)</u>
	<u>182,525,501</u>	<u>166,409,221</u>	<u>152,824,778</u>	<u>136,805,262</u>

(ii) Repossessed collateral:

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

23. Impairment losses on loans

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Total impaired loans	<u>3,677,195</u>	<u>4,505,520</u>	<u>2,700,230</u>	<u>3,378,219</u>
Allowance at beginning of year	2,311,650	1,857,966	2,044,434	1,630,143
Provided during the year	3,189,420	3,631,363	3,126,678	3,510,555
Bad debts written off	<u>(3,296,183)</u>	<u>(3,177,679)</u>	<u>(3,143,814)</u>	<u>(3,096,264)</u>
Allowance at end of year (note 22)	<u>2,204,887</u>	<u>2,311,650</u>	<u>2,027,298</u>	<u>2,044,434</u>
Provided during the year	3,189,420	3,631,363	3,126,678	3,510,555
Recoveries of bad debts	<u>(1,285,029)</u>	<u>(1,548,315)</u>	<u>(1,260,929)</u>	<u>(1,542,549)</u>
Impairment losses reported in profit or loss	<u>1,904,391</u>	<u>2,083,048</u>	<u>1,865,749</u>	<u>1,968,006</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***23. Impairment losses on loans (continued)**

Allowance for impairment losses:

A loan is classified as impaired if its book value exceeds the present value of the expected cash flows from interest payments, principal repayments, guarantees and proceeds of liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest on impaired loans not accrued in these financial statements was estimated at \$1,360,229 (2017: \$1,984,554) for the Group and \$1,172,935 (2017: \$1,742,332) for the Bank. The total allowance for loan losses is made up as follows:

	The Group		The Bank	
	2018	2017	2018	2017
Allowance based on IFRS [see (a) below]	2,204,887	2,311,650	2,027,298	2,044,434
Additional allowance based on BOJ regulations [see (b) below]	<u>2,366,809</u>	<u>2,676,016</u>	<u>1,701,284</u>	<u>2,107,665</u>
	<u>4,571,696</u>	<u>4,987,666</u>	<u>3,728,582</u>	<u>4,152,099</u>

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

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

24. Investment securities

	The Group		The Bank	
	2018	2017	2018	2017
Available-for-sale (AFS)				
Government securities	111,098,017	81,163,153	60,437,486	32,627,135
Bank of Jamaica securities	-	1,068,200	-	1,068,200
Treasury Bills	4,780,294	-	4,780,294	-
Corporate bonds	12,751,796	23,996,840	12,751,796	23,996,840
Unit trust shares	298,740	274,669	-	-
Unquoted equities	5,105	5,105	5,105	5,105
Interest receivable	<u>855,693</u>	<u>927,598</u>	<u>369,008</u>	<u>386,602</u>
	<u>129,789,645</u>	<u>107,435,565</u>	<u>78,343,689</u>	<u>58,083,882</u>
Held-to-Maturity (HTM)				
Government of Jamaica securities	-	1,017,000	-	-
Interest receivable	<u>-</u>	<u>2,914</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>1,019,914</u>	<u>-</u>	<u>-</u>
Total investment securities	<u>129,789,645</u>	<u>108,455,479</u>	<u>78,343,689</u>	<u>58,083,882</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***24. Investment securities (continued)**

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of \$90,000 (2017: \$90,000) which have been deposited by one of the Bank's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

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

25. Sundry assets

	The Group		The Bank	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Accounts receivable	152,428	235,113	152,339	235,101
Deferred charges	1,090,357	1,145,090	1,081,045	1,136,284
Other	<u>500,075</u>	<u>343,456</u>	<u>499,252</u>	<u>342,201</u>
	<u>1,742,860</u>	<u>1,723,659</u>	<u>1,732,636</u>	<u>1,713,586</u>

26. Property, plant and equipment

	The Group				<u>Total</u>
	<u>Freehold Land and Buildings</u>	<u>Leasehold Improvements</u>	<u>Furniture, Fixtures, Motor vehicles & Equipment</u>	<u>Capital Work-in-Progress</u>	
Cost					
October 31, 2016	4,294,612	438,350	6,087,786	500,622	11,321,370
Additions	15,892	5,262	35,785	362,819	419,758
Disposals	(56,664)	-	(20,000)	-	(76,664)
Transfers	<u>47,573</u>	<u>9,510</u>	<u>526,352</u>	<u>(583,435)</u>	<u>-</u>
October 31, 2017	4,301,413	453,122	6,629,923	280,006	11,664,464
Additions	12,958	2,658	50,126	478,050	543,792
Disposals	-	-	(37,757)	-	(37,757)
Transfers	<u>39,918</u>	<u>9,752</u>	<u>452,587</u>	<u>(502,257)</u>	<u>-</u>
October 31, 2018	<u>4,354,289</u>	<u>465,532</u>	<u>7,094,879</u>	<u>255,799</u>	<u>12,170,499</u>
Depreciation					
October 31, 2016	740,793	412,028	4,712,310	-	5,865,131
Charge for the year	126,893	4,930	394,897	-	526,720
Disposals	(22,818)	-	(20,000)	-	(42,818)
October 31, 2017	844,868	416,958	5,087,207	-	6,349,033
Charge for the year	91,520	15,141	456,412	-	563,073
Disposals	<u>-</u>	<u>-</u>	<u>(32,213)</u>	<u>-</u>	<u>(32,213)</u>
October 31, 2018	<u>936,388</u>	<u>432,099</u>	<u>5,511,406</u>	<u>-</u>	<u>6,879,893</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***26. Property, plant and equipment (continued)**

	The Group				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in- Progress	Total
Net book values					
October 31, 2018	<u>3,417,901</u>	<u>33,433</u>	<u>1,583,473</u>	<u>255,799</u>	<u>5,290,606</u>
October 31, 2017	<u>3,456,545</u>	<u>36,164</u>	<u>1,542,716</u>	<u>280,006</u>	<u>5,315,431</u>
October 31, 2016	<u>3,553,819</u>	<u>26,322</u>	<u>1,375,476</u>	<u>500,622</u>	<u>5,456,239</u>
The Bank					
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in Progress	Total
Cost					
October 31, 2016	4,263,175	430,104	5,987,250	499,886	11,180,415
Additions	15,892	5,262	35,020	362,819	418,993
Disposals	(56,664)	-	(20,000)	-	(76,664)
Transfers	<u>47,573</u>	<u>9,510</u>	<u>526,352</u>	<u>(583,435)</u>	<u>-</u>
October 31, 2017	4,269,976	444,876	6,528,622	279,270	11,522,744
Additions	12,958	2,658	49,299	478,050	542,965
Disposals	-	-	(37,757)	-	(37,757)
Transfers	<u>39,918</u>	<u>9,752</u>	<u>452,587</u>	<u>(502,257)</u>	<u>-</u>
October 31, 2018	<u>4,322,852</u>	<u>457,286</u>	<u>6,992,751</u>	<u>255,063</u>	<u>12,027,952</u>
Accumulated depreciation					
October 31, 2016	729,576	404,372	4,624,389	-	5,758,337
Charge for the year	126,206	4,930	390,790	-	521,926
Eliminated on disposals	<u>(22,818)</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(42,818)</u>
October 31, 2017	832,964	409,302	4,995,179	-	6,237,445
Charge for the year	90,833	15,141	452,432	-	558,406
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>(32,213)</u>	<u>-</u>	<u>(32,213)</u>
October 31, 2018	<u>923,797</u>	<u>424,443</u>	<u>5,415,398</u>	<u>-</u>	<u>6,763,638</u>
Net book values					
October 31, 2018	<u>3,399,055</u>	<u>32,843</u>	<u>1,577,353</u>	<u>255,063</u>	<u>5,264,314</u>
October 31, 2017	<u>3,437,012</u>	<u>35,574</u>	<u>1,533,443</u>	<u>279,270</u>	<u>5,285,299</u>
October 31, 2016	<u>3,533,599</u>	<u>25,732</u>	<u>1,362,861</u>	<u>499,886</u>	<u>5,422,078</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

27. Intangible assets	<u>Computer Software</u>	
	<u>The Group</u>	<u>The Bank</u>
Cost		
October 31, 2016	178,591	97,460
Additions	<u>16,986</u>	<u>10,301</u>
October 31, 2017	195,577	107,761
Additions	<u>14,767</u>	<u>14,767</u>
October 31, 2018	<u>210,344</u>	<u>122,528</u>
Amortisation		
October 31, 2016	31,324	29,323
Amortisation for the year	<u>21,747</u>	<u>19,747</u>
October 31, 2017	53,071	49,070
Amortisation for the year	<u>25,805</u>	<u>23,804</u>
October 31, 2018	<u>78,876</u>	<u>72,874</u>
Net book values		
October 31, 2018	<u>131,468</u>	<u>49,654</u>
October 31, 2017	<u>142,506</u>	<u>58,691</u>
October 31, 2016	<u>147,267</u>	<u>68,137</u>

28. Retirement benefits asset/obligation

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

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

	<u>The Group and The Bank</u>	
	<u>2018</u>	<u>2017</u>
Defined benefits pension plan	34,517,087	25,020,925
Other post retirement benefits	<u>(4,727,215)</u>	<u>(3,884,186)</u>
	<u>29,789,872</u>	<u>21,136,739</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan

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

	<u>The Group and the Bank</u>	
	<u>2018</u>	<u>2017</u>
Present value of funded obligations (iii)	(36,033,524)	(31,928,705)
Fair value of plan assets (iv)	<u>70,550,611</u>	<u>60,654,296</u>
	34,517,087	28,725,591
Limitation of economic benefit	<u>-</u>	<u>(3,704,666)</u>
Asset in the statement of financial position	<u>34,517,087</u>	<u>25,020,925</u>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	25,020,925	17,366,400
Contributions paid	500	500
Pension income recognised in profit or loss (v)	1,445,568	850,235
Remeasurement recognised in other comprehensive Income (vi)	<u>8,050,094</u>	<u>6,803,790</u>
Balance at end of year	<u>34,517,087</u>	<u>25,020,925</u>

(iii) Movement in the present value of obligation

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	(31,928,705)	(27,555,249)
Current service costs	(734,271)	(616,756)
Interest cost	(2,811,469)	(2,430,425)
Employees' contribution	(526,537)	(512,709)
Benefits paid	1,359,907	1,442,042
Actuarial gains arising from:		
Experience adjustments	421,132	524,968
Changes in demographic assumptions	812,919	-
Changes in financial assumptions	<u>(2,626,500)</u>	<u>(2,780,576)</u>
Balance at end of year	<u>(36,033,524)</u>	<u>(31,928,705)</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan (continued)

	<u>The Group and the Bank</u>	
	<u>2018</u>	<u>2017</u>
(iv) Movement in fair value of pension plan assets		
Fair value of plan assets at beginning of year	60,654,296	50,685,637
Contributions	527,037	513,209
Benefits paid	(1,359,907)	(1,442,042)
Interest income on plan assets	5,418,788	4,531,433
Administrative fees	(94,060)	(115,258)
Remeasurement gain on plan assets included in other comprehensive income:	<u>5,404,457</u>	<u>6,481,317</u>
Fair value of plan assets at end of year	<u>70,550,611</u>	<u>60,654,296</u>
Plan assets consist of the following		
Government stocks and bonds	42,592,204	36,477,739
Quoted equities	23,441,002	17,811,184
Reverse repurchase agreements	509,908	255,389
Certificate of deposits	220,290	929,444
Real estate	3,562,971	3,034,655
Net current assets	<u>224,236</u>	<u>2,145,885</u>
	<u>70,550,611</u>	<u>60,654,296</u>
(v) Components of defined benefit income recognised in profit for the year		
	<u>2018</u>	<u>2017</u>
Current service costs	734,271	616,756
Interest cost on obligation	2,811,469	2,430,425
Interest income on plan assets	(5,418,788)	(4,531,433)
Interest on effect of asset ceiling	333,420	518,759
Administrative fees	<u>94,060</u>	<u>115,258</u>
	<u>(1,445,568)</u>	<u>(850,235)</u>
(vi) Components of defined benefit income recognised in other comprehensive income		
	<u>2018</u>	<u>2017</u>
Remeasurement of defined benefit obligations	1,392,449	2,255,608
Remeasurement of plan assets	(5,404,457)	(6,481,317)
Change in effect on asset ceiling	<u>(4,038,086)</u>	<u>(2,578,081)</u>
	<u>(8,050,094)</u>	<u>(6,803,790)</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan (continued)

(vii) Sensitivity analysis on projected benefits obligation

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

	The Group and the Bank			
	2018		2017	
	1 % Increase	1 % Decrease	1 % Increase	1 % Decrease
Discount rate	(5,134,000)	6,601,000	(4,405,000)	5,634,000
Future pension increases	4,221,000	(2,659,000)	3,275,000	(2,763,000)
Future salary increases	<u>1,458,000</u>	<u>(1,305,000)</u>	<u>1,567,000</u>	<u>(1,377,000)</u>

(viii) Liability duration

The average liability duration was as follows:

	The Group and the Bank	
	<u>2018</u>	<u>2017</u>
Active members and all participants (years)	<u>16.6</u>	<u>16.3</u>

(ix) The estimated pension contributions expected to be paid into the defined benefit and contribution plans during the next financial year is \$500 (2017: \$500).

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

	The Group and the Bank	
	<u>2018</u>	<u>2017</u>
Discount rate	7.50%	9.00%
Future salary increases	6.50%	6.50%
Future pension increases	<u>3.50%</u>	<u>5.00%</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

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

(i) Movement in the present value of unfunded obligations

	<u>The Group and the Bank</u>	
	<u>2018</u>	<u>2017</u>
Balance at beginning of year	(3,884,186)	(3,191,557)
Current service costs	(211,193)	(166,496)
Interest cost	(344,696)	(282,837)
Benefits paid	126,069	100,996
Actuarial gains/(losses) arising from:		
Experience adjustments	77,624	252,281
Changes in financial assumptions	(758,912)	(572,490)
Demographic assumptions	<u>268,079</u>	<u>(24,083)</u>
Balance at end of year	<u>(4,727,215)</u>	<u>(3,884,186)</u>

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

	<u>2018</u>	<u>2017</u>
Current service costs	211,193	166,496
Interest on obligation	<u>344,696</u>	<u>282,837</u>
	<u>555,889</u>	<u>449,333</u>

(iii) Charge recognised in other comprehensive income

	<u>2018</u>	<u>2017</u>
Experience adjustments	(77,624)	(252,281)
Changes in financial and demographic assumptions	<u>490,833</u>	<u>596,573</u>
Remeasurement loss on obligation	<u>413,209</u>	<u>344,292</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 6.0% (2017: 6.5%) per year.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Retirement benefits asset/obligation (continued)**

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

(v) Sensitivity analysis on projected benefits obligation:

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

	<u>The Group and The Bank</u>			
	<u>2018</u>		<u>2017</u>	
	1 % <u>Increase</u>	1 % <u>Decrease</u>	1 % <u>Increase</u>	1 % <u>Decrease</u>
Discount rate	(736,000)	953,000	(604,000)	784,000
Health inflation rate	861,000	(678,000)	724,000	(567,000)
Salary increase rate	<u>15,000</u>	<u>(13,000)</u>	<u>12,000</u>	<u>(11,000)</u>

(vi) Liability duration

The average liability duration is as follows:

	<u>The Group and The Bank</u>	
	<u>2018</u>	<u>2017</u>
Active members and all participants	<u>18.3</u>	<u>18.5</u>

29. Deposits by the public

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Personal	149,616,835	138,202,024	141,200,014	129,673,433
Business	138,235,687	122,251,924	137,746,051	121,616,960
Interest payable	<u>95,857</u>	<u>105,519</u>	<u>30,353</u>	<u>24,213</u>
	<u>287,948,379</u>	<u>260,559,467</u>	<u>278,976,418</u>	<u>251,314,606</u>

Deposits include \$830,932 (2017: \$16,323) held as collateral for irrevocable commitments under letters of credit.

30. 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

31. Due to parent and ultimate parent company

	<u>The Group and The Bank</u>	
	<u>2018</u>	<u>2017</u>
The Bank of Nova Scotia:		
Facility I	1,101,989	1,636,039
Facility II	<u>1,765,080</u>	<u>2,246,127</u>
	2,867,069	3,882,166
Interest payable	<u>36,197</u>	<u>48,913</u>
	2,903,266	3,931,079
Deposits held with the Bank:		
Scotia Group Jamaica Limited	4,228,234	2,097,742
The Bank of Nova Scotia	<u>407,734</u>	<u>13,631</u>
	<u>7,539,234</u>	<u>6,042,452</u>

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

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

32. Due to fellow subsidiaries

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

33. Other liabilities

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Accrued staff benefits	2,169,932	1,637,676	2,033,514	1,544,731
Provisions	320,974	393,095	316,875	389,765
Prepaid letters of credit	695,383	27,712	695,383	27,712
Accrued liabilities	<u>2,567,521</u>	<u>2,613,964</u>	<u>2,422,635</u>	<u>2,455,687</u>
	<u>5,753,810</u>	<u>4,672,447</u>	<u>5,468,407</u>	<u>4,417,895</u>

34. Deferred tax assets and liabilities

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***34. Deferred tax assets and liabilities (continued)**

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

	The Group		The Bank	
	2018	2017	2018	2017
Balances at beginning of year	(7,797,703)	(5,713,063)	(7,360,397)	(5,263,108)
Recognised in profit (note 14)	(103,507)	61,333	(92,573)	60,331
Recognised in other comprehensive income:				
Re-measurement of retirement benefits assets/obligations	(2,545,628)	(2,153,166)	(2,545,628)	(2,153,166)
Available-for-sale investments:				
- fair value remeasurement	(226,076)	(103,035)	195,944	(25,756)
- transfer to profit	(105,994)	110,228	(48,953)	21,302
	(2,877,698)	(2,145,973)	(2,398,637)	(2,157,620)
Net deferred tax liability	(10,778,908)	(7,797,703)	(9,851,607)	(7,360,397)

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

	The Group		The Bank	
	2018	2017	2018	2017
Retirement benefits asset	(11,507,560)	(8,342,340)	(11,507,560)	(8,342,340)
Other retirement benefits obligations	1,576,172	1,295,162	1,576,172	1,295,162
Available-for-sale investments	(572,366)	(240,845)	71,926	(75,065)
Vacation accrued	132,567	123,598	124,935	115,585
Accelerated tax depreciation	(66,233)	(105,275)	(66,709)	(104,944)
Impairment losses on loans	(215,050)	(385,480)	(50,371)	(248,795)
Interest receivable	(126,438)	(143,093)	-	-
Other	-	570	-	-
Net deferred tax liability	(10,778,908)	(7,797,703)	(9,851,607)	(7,360,397)

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

	The Group		The Bank	
	2018	2017	2018	2017
Accelerated tax depreciation	(39,023)	(38,334)	(38,236)	(38,050)
Pension and other post retirement benefits	338,583	167,033	338,583	167,033
Allowance for loan impairment	(170,431)	(153,215)	(198,424)	(182,546)
Vacation accrued	(8,969)	(8,213)	(9,350)	(6,768)
Interest receivable	(16,653)	(28,604)	-	-
Total (note 14)	103,507	(61,333)	92,573	(60,331)

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***35. Policyholders' liabilities**

(a) Composition of policyholders' liabilities

	<u>The Group</u>	
	<u>2018</u>	<u>2017</u>
Insurance risk reserve - Individual life	(8,055,034)	(7,137,546)
- Individual accident and sickness	357,126	242,782
- Whole life	80,752	(10,833)
- Group life	<u>580,711</u>	<u>518,210</u>
	(7,036,445)	(6,387,387)
Policyholders' fund	51,594,637	50,861,291
Benefits and claims payable	181,629	188,801
Unprocessed premiums	12,639	14,902
Annuity fund	<u>539,869</u>	<u>493,549</u>
	<u>45,292,329</u>	<u>45,171,156</u>

(b) Movement in policyholders' liabilities

	<u>The Group</u>	
	<u>2018</u>	<u>2017</u>
Policyholders fund:		
At beginning of year	50,861,291	49,956,739
Gross premiums	5,111,179	5,276,527
Disbursements	(5,779,629)	(5,905,726)
Interest credited	<u>1,401,796</u>	<u>1,533,751</u>
At end of year	<u>51,594,637</u>	<u>50,861,291</u>
Benefits and claims payable:		
At beginning of year	188,801	170,182
Claims charged during the year	184,444	218,305
Benefits and claims paid	(191,616)	(199,686)
At end of year	<u>181,629</u>	<u>188,801</u>
Unprocessed premiums:		
At beginning of year	14,902	(9,427)
Premiums received	7,536,105	7,564,968
Premiums applied	(7,538,368)	(7,540,639)
At end of year	<u>12,639</u>	<u>14,902</u>
Annuity fund:		
At beginning of year	493,549	374,283
Issue of new annuities	62,483	133,172
Payments	(35,660)	(30,986)
Interest credited	<u>19,497</u>	<u>17,080</u>
At end of year	<u>539,869</u>	<u>493,549</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***35. Policyholders' liabilities (continued)**

(b) Movement in policyholders' liabilities (continued)

	The Group		
	2018		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(6,905,597)	518,210	(6,387,387)
Changes in assumptions and fees	(791,222)	(430)	(791,652)
Normal changes	<u>79,663</u>	<u>62,931</u>	<u>142,594</u>
At end of year	<u>(7,617,156)</u>	<u>580,711</u>	<u>(7,036,445)</u>
	2017		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(6,297,064)	569,872	(5,727,192)
Changes in assumptions and fees	(596,765)	(45,101)	(641,866)
Normal changes	<u>(11,768)</u>	<u>(6,561)</u>	<u>(18,329)</u>
At end of year	<u>(6,905,597)</u>	<u>518,210</u>	<u>(6,387,387)</u>

36. Share capital

Authorised:

	Number of Units ('000)	
	<u>2018</u>	<u>2017</u>
Ordinary shares of no par value	3,000,000	3,000,000
Preference shares of no par value	<u>100,000</u>	<u>100,000</u>
	<u>3,100,000</u>	<u>3,100,000</u>

Issued and fully paid:

	Number of Units ('000)		Carrying value	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Ordinary stock units	<u>2,927,232</u>	<u>2,927,232</u>	<u>2,927,232</u>	<u>2,927,232</u>

37. Reserve fund

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

38. Retained earnings reserve

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

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

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

40. Capital reserve

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Liquidation of Scotia Jamaica General Insurance Brokers Limited	9,383	9,383	9,383	9,383
Dissolution of SDBG Merchant Bank Limited	<u>-</u>	<u>-</u>	<u>32,704</u>	<u>32,704</u>
	<u>9,383</u>	<u>9,383</u>	<u>42,087</u>	<u>42,087</u>

41. Loan loss reserve

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

42. Related party transactions and balances

The Group is controlled by Scotia Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotiabank Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia, which is incorporated and domiciled in Canada is the ultimate parent company.

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***42. Related party transactions and balances (continued)**

Related party transactions with the ultimate parent company comprise the payment of dividends, management fees, guarantee fees, centralised computing and other service fees. There were no balances due to the ultimate parent company, other than those set out in note 31. No impairment losses have been recognised in respect of loans made to related parties.

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

	The Group					
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	Total	
					2018	2017
Loans						
Balance at October 31	-	-	524,996	6,760,351	7,285,347	3,209,923
Interest earned	-	-	35,028	723,033	758,061	308,219
Deposit liabilities						
Balance at October 31	7,539,234	5,208,255	473,495	4,254,075	17,475,059	14,414,748
Interest expense	194,897	279,414	617	10,018	484,946	542,128
Investments/Repurchase agreements						
Securities purchased under repurchase agreements	-	-	-	-	-	1,980,000
Interest received on repurchase agreements	-	28,355	-	-	28,355	143,586
Other investments	-	342,601	-	196,793	539,394	466,333
Interest earned on other investments	-	1,388	-	16,309	17,697	1,550
Deposits with Banks						
Due from banks and other financial institutions	1,149,447	21,753,291	-	-	22,902,738	27,813,351
Interest earned from banks and other financial institutions	178	410,387	-	-	410,565	207,847
Other						
Gain on redemption of Units in Mutual Fund	-	-	-	-	-	413,433
Fees and commission (paid)/earned	-	(3,487)	488	-	(2,999)	11,444
Insurance products	-	-	11,002	-	11,002	12,803
Technical service fees (paid)/received	(1,531,834)	52,175	-	-	(1,479,659)	(1,044,999)
Other operating (expense) /income	(1,060,163)	(2,780,664)	-	(9,291)	(3,850,118)	(1,354,554)

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***42. Related party transactions and balances (continued)**

	The Bank					
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	Total	
					2018	2017
Loans						
Balance at October 31	-	-	371,343	6,760,351	7,131,694	3,002,029
Interest income earned	-	-	20,619	723,033	743,652	289,689
Deposit liabilities						
Balance at October 31	7,539,234	3,095,733	443,683	4,254,075	15,332,725	12,793,329
Interest expense	194,897	34,451	411	10,018	239,777	353,113
Investments/Repurchase agreements						
Securities purchased under repurchase agreements	-	-	-	-	-	1,880,000
Interest received on repurchase agreements	-	14,289	-	-	14,289	70,529
Other investments	-	-	-	196,793	196,793	191,664
Interest earned on other investments	-	-	-	16,309	16,309	1,550
Deposit assets						
Due from banks and other financial institutions	1,149,447	21,753,291	-	-	22,902,738	27,813,351
Interest earned from banks and other financial institutions	178	410,387	-	-	410,565	207,847
Due (to)/from fellow subsidiaries	-	615	-	-	615	(1,486)
Other						
Fees and commission earned	-	-	481	-	481	21,873
Technical service fees (paid)/received	(1,433,265)	98,503	-	-	(1,334,762)	(926,539)
Other operating (expense)/income	(1,060,163)	320,604	-	(9,291)	(748,850)	1,741,161

	The Group		The Bank	
	2018	2017	2018	2017
Key management compensation				
Salaries and other short term benefits	769,539	750,862	641,833	648,202
Post-employment benefits	(197,611)	56,353	(197,611)	56,353

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management

(a) Overview and risk management framework

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

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

The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established committees for managing and monitoring risks.

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

(i) Board Audit Committee

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

(ii) Executive and Enterprise Risk Committee

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management (continued)

(a) Overview and risk management framework (continued)

(iii) Asset and Liability Committee

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

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

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

(b) Credit risk

(i) Credit risk management

At a strategic level, the Group manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower or group of borrowers, and industry segments. Credit risk limits are approved by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Operationally, exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The principal collateral types for loans are:

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Credit-related commitments

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

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

(iii) Credit quality

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

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

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

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

- Excellent
- Good
- Higher risk

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)**

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

	Loans and credit commitments			
	The Group		The Bank	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	%	%	%	%
Excellent	23.9	24.3	18.1	17.3
Very Good	2.2	3.2	2.6	3.9
Good	25.4	26.2	23.1	24.0
Acceptable	14.2	11.4	16.9	13.8
Higher Risk	<u>34.3</u>	<u>34.9</u>	<u>39.3</u>	<u>41.0</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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

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

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

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

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

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

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

	The Group		The Bank	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	%	%	%	%
Standard	92.0	87.5	91.5	85.7
Special Mention	6.0	9.9	6.8	11.9
Sub-Standard	0.9	1.3	0.6	1.0
Doubtful	0.3	0.4	0.3	0.4
Loss	<u>0.8</u>	<u>0.9</u>	<u>0.8</u>	<u>1.0</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)**

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

	The Group		The Bank	
	2018	2017	2018	2017
AAA to AA+	31,147,796	4,171,650	31,147,796	4,171,650
AA to A+	5,277,396	10,620,047	5,277,396	10,620,047
A to A-	3,067,519	5,513,714	3,067,519	5,513,714
BBB+ to BB+	1,280,924	2,885,973	1,280,924	2,885,973
BB to B-	114,101,178	106,516,084	57,462,058	54,064,322
Unrated	1,261,694	949,206	1,261,694	949,206
	<u>156,136,507</u>	<u>130,656,674</u>	<u>99,497,387</u>	<u>78,204,912</u>
<i>Classified as follows:</i>				
Deposits with Bank of Jamaica	25,396,035	20,972,988	19,604,131	18,618,154
Investment securities				
Held-to-maturity	-	1,019,914	-	-
Available-for-sale	129,485,800	107,155,791	78,338,584	58,078,777
Pledged assets				
Available for sale	1,554,672	1,507,981	1,554,672	1,507,981
	<u>156,436,507</u>	<u>130,656,674</u>	<u>99,497,387</u>	<u>78,204,912</u>

(iv) Maximum exposure to credit risk

The maximum exposure to credit risk is the amount before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

Collateral and other credit enhancements held against loans

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(b) Credit risk (continued)****(iv) Maximum exposure to credit risk (continued)****Collateral and other credit enhancements held against loans (continued)**

The Group holds collateral against credits to borrowers primarily in the form of cash, motor vehicles, real estate, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities. Estimates of fair values are based on 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 \$136,933,411 (2017: \$126,169,898) for the Group and \$107,057,347 (2017: \$95,230,702) for the Bank.

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

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

	The Group			
	Loans	Acceptances, guarantees and letters of credit	Total 2018	Total 2017
Agriculture, fishing and mining	1,140,539	271,704	1,412,243	1,345,636
Construction and real estate	5,305,771	222,389	5,528,160	3,158,803
Distribution	15,432,331	1,028,759	16,461,090	14,998,218
Financial institutions	5,014,975	2,179,567	7,194,542	4,755,413
Government and public entities	12,130,604	841,282	12,971,886	14,966,764
Manufacturing	7,599,532	594,224	8,193,756	6,487,419
Transportation, electricity, water and other	7,957,061	1,404,227	9,361,288	6,477,491
Personal	111,155,796	1,048,688	112,204,484	107,334,571
Professional and other services	8,046,677	744,835	8,791,512	8,378,490
Tourism and entertainment	9,926,158	119,543	10,045,701	7,649,658
Interest receivable	1,020,944	-	1,020,944	1,021,381
Total	184,730,388	8,455,218	193,185,606	176,573,844
Total impairment allowance			(2,204,887)	(2,311,650)
			190,980,719	174,262,194

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(b) Credit risk (continued)****(v) Concentration of exposure to credit risk (continued)****(1) Loans and customer liabilities under acceptance, guarantees and letters of credit (continued)**

	The Bank			
	<u>Loans</u>	Acceptances, guarantees and letters of credit	<u>Total 2018</u>	<u>Total 2017</u>
Agriculture, fishing and mining	1,140,539	271,704	1,412,243	1,345,636
Construction and real estate	5,305,771	222,389	5,528,160	3,158,803
Distribution	15,432,331	1,028,759	16,461,090	14,998,218
Financial institutions	5,158,358	2,179,567	7,337,925	4,918,809
Government and public entities	12,130,604	841,282	12,971,886	14,966,764
Manufacturing	7,599,532	594,224	8,193,756	6,487,419
Transportation, electricity, water and other	7,957,061	1,404,227	9,361,288	6,477,491
Personal	81,370,894	864,054	82,234,948	76,283,782
Professional and other services	8,046,677	744,835	8,791,512	8,378,490
Tourism and entertainment	9,926,158	119,543	10,045,701	7,649,659
Interest receivable	<u>784,151</u>	<u>-</u>	<u>784,151</u>	<u>809,066</u>
Total	154,852,076	8,270,584	163,122,660	145,474,137
Total impairment allowance			<u>(2,027,298)</u>	<u>(2,044,434)</u>
			<u>161,095,362</u>	<u>143,429,703</u>

(2) Debt securities and amounts due from other banks

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

	The Group		The Bank	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Government of Jamaica	118,104,489	84,462,975	66,957,273	34,366,047
Bank of Jamaica	63,281,723	57,242,310	57,360,494	54,761,337
Financial institutions	39,975,431	48,978,054	39,975,430	48,877,593
Corporate and other	<u>12,935,983</u>	<u>24,420,364</u>	<u>12,935,983</u>	<u>24,145,695</u>
	<u>234,297,626</u>	<u>215,103,703</u>	<u>177,229,180</u>	<u>162,150,672</u>

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

(c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices and foreign exchange rates), correlations between them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)**

The Executive and Enterprise Risk Committee oversee the application of the framework set by the Board, and monitor the Group's market risk exposures and the activities that give rise to these exposures.

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

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

(i) Interest rate risk

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

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

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

	The Group						Total
	2018						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	
Cash resources	28,369,823	30,382,142	-	-	-	50,846,922	109,598,887
Government securities purchased under resale agreement	-	300,000	-	-	-	473	300,473
Pledged assets	-	1,550,287	-	-	-	4,385	1,554,672
Loans (2)	52,919,784	54,495,678	18,367,523	50,720,959	4,930,325	1,091,232	182,525,501
Investment securities (3)	-	64,067,574	19,418,974	36,694,103	8,496,631	1,112,363	129,789,645
Other assets	-	-	-	-	-	52,283,000	52,283,000
Total assets	81,289,607	150,795,681	37,786,497	87,415,062	13,426,956	105,338,375	476,052,178

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

	The Group						
	2018						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Deposits by the public	279,382,386	13,229,765	9,629,455	5,277,269	-	-	307,518,875
Other liabilities	-	-	-	-	-	32,529,941	32,529,941
Policy-holders' liabilities	39,069,572	2,952,729	10,306,473	-	-	(7,036,445)	45,292,329
Stockholders' equity	-	-	-	-	-	90,711,033	90,711,033
Total liabilities and stockholders' equity	<u>318,451,958</u>	<u>16,182,494</u>	<u>19,935,928</u>	<u>5,277,269</u>	<u>-</u>	<u>116,204,529</u>	<u>476,052,178</u>
Total interest rate sensitivity gap	<u>(237,162,351)</u>	<u>134,613,187</u>	<u>17,850,569</u>	<u>82,137,793</u>	<u>13,426,956</u>	<u>(10,866,154)</u>	<u>-</u>
Cumulative gap	<u>(237,162,351)</u>	<u>(102,549,164)</u>	<u>(84,698,595)</u>	<u>(2,560,802)</u>	<u>10,866,154</u>	<u>-</u>	<u>-</u>

	2017						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
	Total assets	70,030,468	159,567,377	28,332,011	69,136,286	11,582,824	90,101,177
Total liabilities and stockholders' equity	<u>285,820,204</u>	<u>19,083,010</u>	<u>19,489,006</u>	<u>5,550,924</u>	<u>9,478</u>	<u>98,797,521</u>	<u>428,750,143</u>
Total interest rate sensitivity gap	<u>(215,789,736)</u>	<u>140,484,367</u>	<u>8,843,005</u>	<u>63,585,362</u>	<u>11,573,346</u>	<u>(8,696,344)</u>	<u>-</u>
Cumulative gap	<u>(215,789,736)</u>	<u>(75,305,369)</u>	<u>(66,462,364)</u>	<u>(2,877,002)</u>	<u>8,696,344</u>	<u>-</u>	<u>-</u>

	The Bank						
	2018						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	28,369,823	24,599,010	-	-	-	50,708,782	103,677,615
Government securities purchased under resale agreements	-	300,000	-	-	-	473	300,473
Pledged assets	-	1,550,287	-	-	-	4,385	1,554,672
Loans (2)	31,365,756	52,116,810	13,549,477	50,693,352	5,053,967	45,416	152,824,778
Investment securities (3) subsidiaries	-	36,948,298	11,455,482	27,372,612	2,226,782	340,515	78,343,689
Other assets	-	-	-	-	-	220,000	220,000
Total assets	<u>59,735,579</u>	<u>115,514,405</u>	<u>25,004,959</u>	<u>78,065,964</u>	<u>7,280,749</u>	<u>101,976,493</u>	<u>387,578,149</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

	The Bank						
	2018						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Deposits by the public	272,004,120	7,388,745	7,168,907	4,232,046	-	-	290,793,818
Other liabilities	-	-	-	-	-	31,233,801	31,233,801
Stockholders' equity	-	-	-	-	-	65,550,530	65,550,530
Total liabilities and stockholders' equity	<u>272,004,120</u>	<u>7,388,745</u>	<u>7,168,907</u>	<u>4,232,046</u>	<u>-</u>	<u>96,784,331</u>	<u>387,578,149</u>
Total interest rate sensitivity gap	<u>(212,268,541)</u>	<u>108,125,660</u>	<u>17,836,052</u>	<u>73,833,918</u>	<u>7,280,749</u>	<u>5,192,162</u>	<u>-</u>
Cumulative gap	<u>(212,268,541)</u>	<u>(104,142,881)</u>	<u>(86,306,829)</u>	<u>(12,472,911)</u>	<u>(5,192,162)</u>	<u>-</u>	<u>-</u>

	The Bank						
	2017						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Total assets	51,095,311	122,616,060	21,804,710	56,022,656	6,582,102	86,031,486	344,152,325
Total liabilities and stockholders' equity	<u>242,060,576</u>	<u>9,552,214</u>	<u>6,226,688</u>	<u>4,466,764</u>	<u>9,478</u>	<u>81,836,605</u>	<u>344,152,325</u>
Total interest rate and sensitivity gap	<u>(190,965,265)</u>	<u>113,063,846</u>	<u>15,578,022</u>	<u>51,555,892</u>	<u>6,572,624</u>	<u>4,194,881</u>	<u>-</u>
Cumulative gap	<u>(190,965,265)</u>	<u>(77,901,419)</u>	<u>(62,323,397)</u>	<u>(10,767,505)</u>	<u>(4,194,881)</u>	<u>-</u>	<u>-</u>

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

(2) This includes impaired loans.

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. 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					
	2018					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted Average %
ASSETS						
Cash resources	1.85	2.15	-	-	-	2.01
Securities purchased under resale agreements	-	2.40	-	-	-	2.40
Pledged assets	-	1.52	-	-	-	1.52
Loans (1)	9.21	17.50	11.05	11.03	7.38	12.35
Investment securities (2)	-	2.07	4.23	3.62	8.93	3.32
LIABILITIES:						
Deposits (3)	0.30	2.48	1.83	5.06	-	0.52
Policyholders' liabilities	<u>2.71</u>	<u>2.95</u>	<u>3.00</u>	<u>-</u>	<u>-</u>	<u>2.42</u>
	2017					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted Average %
ASSETS						
Cash resources	2.65	1.43	7.72	-	-	1.95
Securities purchased under resale agreements	2.50	3.69	-	-	-	3.62
Pledged assets	-	5.88	-	-	-	5.88
Loans (1)	10.26	19.30	11.56	12.10	7.55	13.62
Investment securities (2)	-	5.29	3.77	5.29	-	5.55
LIABILITIES:						
Deposits (3)	0.36	2.52	2.10	5.12	7.00	0.63
Policyholders' liabilities	<u>2.70</u>	<u>3.93</u>	<u>3.10</u>	<u>-</u>	<u>-</u>	<u>2.51</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

	The Bank					
	2018					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	1.85	2.21	-	-	-	2.02
Securities purchased under resale agreements	-	2.40	-	-	-	2.40
Pledged assets	-	1.52	-	-	-	1.52
Loans (1)	10.12	17.78	11.54	11.03	7.17	13.07
Investment securities (2)	-	2.04	1.69	2.43	8.48	2.31
LIABILITIES						
Deposits (3)	<u>0.17</u>	<u>0.59</u>	<u>1.30</u>	<u>5.81</u>	<u>-</u>	<u>0.29</u>
2017						
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	2.65	1.31	-	-	-	1.83
Securities purchased under resale agreements	2.50	3.64	-	-	-	3.57
Pledged assets	-	5.88	-	-	-	5.88
Loans (1)	11.73	19.83	12.31	12.11	7.53	14.61
Investment securities (2)	-	5.04	3.72	2.89	7.61	4.52
LIABILITIES						
Deposits (3)	<u>0.21</u>	<u>0.76</u>	<u>1.33</u>	<u>5.77</u>	<u>7.00</u>	<u>0.35</u>

(1) Yields are based on book values 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)****Sensitivity to interest rate movements**

The following shows the sensitivity to interest rate movements using scenarios that are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analyses is performed on the same basis as 2017.

	2018		2017	
JMD Interest rates	Increase/decrease by 450bps		Increase/decrease by 175bps	
USD Interest rates	Increase/decrease by 125bps		Increase/decrease by 100bps	
	The Group		The Bank	
	2018	2017	2018	2017
Effect on profit	3,259,128	1,380,896	2,438,761	1,212,219
Effect on Stockholders' equity	<u>12,631,241</u>	<u>4,543,613</u>	<u>12,279,557</u>	<u>4,446,703</u>

(ii) Currency risk

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

The tables below summarise the exposure to relevant currencies:

	The Group						
	2018						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	51,814,468	49,453,663	2,303,119	4,896,462	863,336	267,839	109,598,887
Government securities purchased under resale agreements	300,473	-	-	-	-	-	300,473
Pledged assets	1,554,672	-	-	-	-	-	1,554,672
Loans	153,501,745	28,533,774	470,934	19,045	3	-	182,525,501
Investments	88,909,398	39,907,123	973,124	-	-	-	129,789,645
Other assets	<u>47,881,428</u>	<u>4,014,702</u>	<u>865</u>	<u>(58)</u>	<u>507,811</u>	<u>(121,748)</u>	<u>52,283,000</u>
	<u>343,962,184</u>	<u>121,909,262</u>	<u>3,748,042</u>	<u>4,915,449</u>	<u>1,371,150</u>	<u>146,091</u>	<u>476,052,178</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

JMD Equivalent	The Group						
	2018						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	180,291,284	118,393,166	3,551,118	4,810,486	472,568	253	307,518,875
Other liabilities	25,856,599	5,936,630	172,051	32,834	506,197	25,630	32,529,941
Policholder liabilities	<u>45,292,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,292,329</u>
	<u>251,440,212</u>	<u>124,329,796</u>	<u>3,723,169</u>	<u>4,843,320</u>	<u>978,765</u>	<u>25,883</u>	<u>385,341,145</u>
NET POSITION	<u>92,521,972</u>	<u>(2,420,534)</u>	<u>24,873</u>	<u>72,129</u>	<u>392,385</u>	<u>120,208</u>	<u>90,711,033</u>

JMD Equivalent	The Group						
	2017						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
ASSETS							
Cash resources	45,570,644	53,191,748	3,281,116	5,118,654	519,434	139,859	107,821,455
Government securities purchased under resale agreements	3,185,932	-	-	-	-	-	3,185,932
Pledged assets	1,507,981	-	-	-	-	-	1,507,981
Loans	143,637,532	22,691,291	80,389	6	3	-	166,409,221
Investments	82,984,198	25,471,281	-	-	-	-	108,455,479
Other assets	<u>38,333,165</u>	<u>2,905,805</u>	<u>(10)</u>	<u>(45)</u>	<u>131,160</u>	<u>-</u>	<u>41,370,075</u>
	<u>315,219,452</u>	<u>104,260,125</u>	<u>3,361,495</u>	<u>5,118,615</u>	<u>650,597</u>	<u>139,859</u>	<u>428,750,143</u>
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	168,378,105	101,312,946	3,290,509	5,077,640	500,850	394	278,560,444
Other liabilities	23,573,091	3,661,420	68,227	21,843	125,960	55,013	27,505,554
Policyholders' liabilities	<u>45,171,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,171,156</u>
	<u>237,122,352</u>	<u>104,974,366</u>	<u>3,358,736</u>	<u>5,099,483</u>	<u>626,810</u>	<u>55,407</u>	<u>351,237,154</u>
NET POSITION	<u>78,097,100</u>	<u>(714,241)</u>	<u>2,759</u>	<u>19,132</u>	<u>23,787</u>	<u>84,452</u>	<u>77,512,989</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

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

JMD Equivalent	The Bank						
	2018						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
ASSETS							
Cash resources	45,894,320	49,453,034	2,303,119	4,895,967	863,336	267,839	103,677,615
Government securities purchased under resale agreements	300,473	-	-	-	-	-	300,473
Pledged assets	1,554,672	-	-	-	-	-	1,554,672
Loans	123,801,022	28,533,774	470,934	19,045	3	-	152,824,778
Investment securities	37,463,442	39,907,123	973,124	-	-	-	78,343,689
Investment in subsidiaries	220,000	-	-	-	-	-	220,000
Other assets	<u>46,255,350</u>	<u>4,014,702</u>	<u>865</u>	<u>(58)</u>	<u>507,811</u>	<u>(121,748)</u>	<u>50,656,922</u>
	<u>255,489,279</u>	<u>121,908,633</u>	<u>3,748,042</u>	<u>4,914,954</u>	<u>1,371,150</u>	<u>146,091</u>	<u>387,578,149</u>
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	163,567,212	118,392,609	3,551,118	4,810,058	472,568	253	290,793,818
Other liabilities	<u>24,560,459</u>	<u>5,936,630</u>	<u>172,051</u>	<u>32,834</u>	<u>506,197</u>	<u>25,630</u>	<u>31,233,801</u>
	<u>188,127,671</u>	<u>124,329,239</u>	<u>3,723,169</u>	<u>4,842,892</u>	<u>978,765</u>	<u>25,883</u>	<u>322,027,619</u>
NET POSITION	<u>67,361,608</u>	<u>(2,420,606)</u>	<u>24,873</u>	<u>72,062</u>	<u>392,385</u>	<u>120,208</u>	<u>65,550,530</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

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

JMD Equivalent	The Bank						
	2017						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
ASSETS							
Cash resources	43,090,804	53,191,125	3,281,116	5,118,145	519,434	139,859	105,340,483
Government securities purchased under resale agreements	3,085,471	-	-	-	-	-	3,085,471
Pledged assets	1,507,981	-	-	-	-	-	1,507,981
Loans	114,033,573	22,691,291	80,389	6	3	-	136,805,262
Investment securities	32,612,601	25,471,281	-	-	-	-	58,083,882
Investments in subsidiaries	220,000	-	-	-	-	-	220,000
	<u>36,072,336</u>	<u>2,905,805</u>	<u>(10)</u>	<u>(45)</u>	<u>131,160</u>	<u>-</u>	<u>39,109,246</u>
Other assets	<u>230,622,766</u>	<u>104,259,502</u>	<u>3,361,495</u>	<u>5,118,106</u>	<u>650,597</u>	<u>139,859</u>	<u>344,152,325</u>
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	152,216,365	101,312,243	3,290,509	5,068,615	500,850	394	262,388,976
Other liabilities	<u>21,637,700</u>	<u>3,661,420</u>	<u>68,227</u>	<u>21,843</u>	<u>125,960</u>	<u>55,013</u>	<u>25,570,163</u>
	<u>173,854,065</u>	<u>104,973,663</u>	<u>3,358,736</u>	<u>5,090,458</u>	<u>626,810</u>	<u>55,407</u>	<u>287,959,139</u>
NET POSITION	<u>56,768,701</u>	<u>(714,161)</u>	<u>2,759</u>	<u>27,648</u>	<u>23,787</u>	<u>84,452</u>	<u>56,193,186</u>

The following significant exchange rates were applied during the year:

	Average rate for the period		Reporting date spot rate	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
USD	128.3980	128.3351	127.9971	126.6851
CAD	99.6417	98.2057	97.4996	99.1446
GBP	171.8235	163.2177	162.2372	167.0432
EUR	<u>150.2552</u>	<u>140.8088</u>	<u>144.4428</u>	<u>144.0208</u>

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the currencies indicated at October 31 would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis as 2017. The strengthening of the JMD against the same currencies at October 31 would have had an equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

	2018	2017
	Increase/decrease	Increase/decrease
USD	by 8.75%	by 2.25%
CAD	by 9.00%	by 10.50%
GBP	by 8.25%	by 8.25%
EUR	by 9.00%	by 10.25%

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(c) Market risk (continued)****Sensitivity to foreign exchange rate movements (continued)**

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Effect on profit and stockholders' equity	<u>296,574</u>	<u>81,211</u>	<u>296,574</u>	<u>81,152</u>

(d) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows. The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns and guarantees. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group maintains large holdings of unencumbered liquid assets to support its operations. These assets generally can also be sold or pledged to meet the Bank's obligations.

The Group's liquidity management process includes:

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

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

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances, government and corporate bonds, treasury bills, and loans.

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(d) Liquidity risk (continued)**

Financial liabilities cash flows

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

	The Group					Carrying amount
	2018					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	289,358,092	10,526,507	4,655,739	5,923,044	310,463,382	307,518,875
Policyholders' liabilities	41,914,328	10,611,428	-	-	52,525,756	45,292,329
Other liabilities	<u>5,351,894</u>	<u>2,146,716</u>	<u>1,059,635</u>	<u>2,110,171</u>	<u>10,668,416</u>	<u>10,668,416</u>
Total liabilities	<u>336,624,314</u>	<u>23,284,651</u>	<u>5,715,374</u>	<u>8,033,215</u>	<u>373,657,554</u>	<u>363,479,620</u>

	2017					Total	Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity		
Financial liabilities							
Deposits, due to financial institutions, parent company and fellow subsidiaries	259,638,704	9,912,982	5,372,486	3,934,887	-	278,859,059	278,560,444
Policyholders' liabilities	40,665,562	10,926,613	-	-	-	51,592,175	45,171,156
Other liabilities	<u>6,091,270</u>	<u>1,379,677</u>	<u>58,587</u>	<u>1,921,668</u>	<u>-</u>	<u>9,451,202</u>	<u>9,451,202</u>
Total liabilities	<u>306,395,536</u>	<u>22,219,272</u>	<u>5,431,073</u>	<u>5,856,555</u>	<u>-</u>	<u>339,902,436</u>	<u>333,182,802</u>

	The Bank					Carrying amount
	2018					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	281,613,297	7,579,690	1,652,248	-	290,845,235	290,793,818
Other liabilities	<u>5,415,973</u>	<u>2,146,716</u>	<u>1,059,635</u>	<u>2,110,171</u>	<u>10,732,495</u>	<u>10,732,495</u>
Total liabilities	<u>287,029,270</u>	<u>9,726,406</u>	<u>2,711,883</u>	<u>2,110,171</u>	<u>301,577,730</u>	<u>301,526,313</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(d) Liquidity risk (continued)**

Financial liabilities cash flows (continued)

	2017					Total	Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity		
Financial liabilities							
Deposits, due to financial institutions, parent company and fellow subsidiaries	271,209,753	20,876,444	8,887,816	-	-	300,974,013	262,388,976
Other liabilities	<u>5,060,112</u>	<u>1,379,677</u>	<u>58,587</u>	<u>1,921,668</u>	<u>-</u>	<u>8,420,044</u>	<u>8,420,044</u>
Total liabilities	<u>276,269,865</u>	<u>22,256,121</u>	<u>8,946,403</u>	<u>1,921,668</u>	<u>-</u>	<u>309,394,057</u>	<u>270,809,020</u>

(e) Insurance risk

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

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

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

Two key matters affecting insurance risk are discussed below:

(i) Long-term insurance contracts

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(e) Insurance risk (continued)****(i) Long-term insurance contracts (continued)****(1) Frequency and severity of claims**

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

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

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

	The Group			
	Total benefits assured			
	2018		2017	
	Before and after reinsurance	%	Before and after reinsurance	%
(ii) Individual Life				
Benefits assured per life				
0 to 250,000	4,983,984	9	5,343,085	10
250,001 to 500,000	3,459,954	6	2,724,812	5
500,001 to 750,000	3,030,947	6	3,080,557	6
750,001 to 1,000,000	3,589,734	6	3,338,334	6
1,000,001 to 1,500,000	10,816,438	19	9,837,896	19
1,500,001 to 2,000,000	6,851,797	12	6,208,904	12
Over 2,000,000	<u>23,756,314</u>	<u>42</u>	<u>21,136,123</u>	<u>42</u>
Total	<u>56,489,168</u>	<u>100</u>	<u>51,669,711</u>	<u>100</u>
(iii) Group Life				
Benefits assured per life				
0 to 250,000	10,963,492	13	11,377,437	13
250,001 to 500,000	4,507,078	5	4,638,807	6
500,001 to 750,000	5,725,865	7	5,202,911	6
750,001 to 1,000,000	4,738,948	6	4,377,498	5
1,000,001 to 1,500,000	15,862,573	18	15,580,668	18
1,500,001 to 2,000,000	13,213,842	15	13,360,915	16
Over 2,000,000	<u>31,452,790</u>	<u>36</u>	<u>30,293,294</u>	<u>36</u>
Total	<u>86,464,588</u>	<u>100</u>	<u>84,831,530</u>	<u>100</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

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

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

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

Estimates are made 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 experience.

(3) Process used in deriving assumptions

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(e) Insurance risk (continued)****(ii) Reinsurance risk**

Reinsurance risk is the risk that a reinsurer will default and not honour its obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group 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
Group creditor life contracts	maximum retention of \$42,000 per insurer
Individual Universal Life	maximum retention of \$15,000 per insured

(iii) Sensitivity analysis of actuarial liabilities**(1) Sensitivity arising from the valuation of life insurance and annuity 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 and annuity contracts is sensitive to:

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***43. Financial risk management (continued)****(e) Insurance risk (continued)****(iii) Sensitivity analysis of actuarial liabilities (continued)****(1) Sensitivity arising from the valuation of life insurance contracts (continued)**

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

- operating expenses and taxes
- lapse rates
- mortality and morbidity

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

	<u>2018</u>	<u>2017</u>
Interest rates increase by 1%	25,269	36,697
Interest rates decrease by 1%	25,055	(1,649)
Mortality increases by 10%	496,742	457,498
Mortality decreases by 10%	(513,746)	(474,273)
Expenses increase by 10%	514,898	399,495
Expenses decrease by 10%	(509,248)	(395,481)
Lapses and withdrawals increase by 10%	331,011	298,015
Lapses and withdrawals decrease by 10%	<u>(357,962)</u>	<u>(322,350)</u>

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Fair value of financial instruments (continued)

Fair value hierarchy

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

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

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

Basis of valuation

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

- (i) financial instruments classified as available-for-sale are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques, which include utilising recent transaction prices or broker quotes. Investments in unit trusts 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 value of liquid assets and other assets maturing within one year is considered to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;
- (iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the reporting date; the fair value of fixed-term interest bearing deposits is based on discounted cash flows using interest rates for new deposits;
- (v) the fair value of variable rate financial instruments is considered to approximate their carrying amounts as they are frequently repriced to current market rates;
- (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; and
- (vii) The fair value of quoted equity investments are based on quoted market bid prices. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Fair value of financial instruments (continued)****Basis of valuation (continued)**

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

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

	The Group						
	Carrying amount			2018			
				Fair value			
Amortised Cost	Available- for-sale	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value							
Unquoted shares	-	5,105	5,105	-	-	5,105	5,105
Government securities	-	111,877,714	111,877,714	-	111,877,714	-	111,877,714
Treasury Bills	-	4,780,294	4,780,294	-	4,780,294	-	4,780,294
Corporate bonds	-	12,827,792	12,827,792	-	12,827,792	-	12,827,792
Unitised funds	-	298,740	298,740	-	298,740	-	298,740
	-	<u>129,789,645</u>	<u>129,789,645</u>	-	<u>129,784,540</u>	<u>5,105</u>	<u>129,789,645</u>
Pledged assets measured at fair value							
Government securities	-	<u>1,554,672</u>	<u>1,554,672</u>	-	<u>1,554,672</u>	-	<u>1,554,672</u>
Financial assets not measured at fair value							
Loans and receivables	<u>62,907,759</u>	-	<u>62,907,759</u>	-	-	<u>65,613,133</u>	<u>65,613,133</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Fair value of financial instruments (continued)**

Accounting classifications and fair values (continued)

	The Group						
	2017						
	Carrying amount			Fair value			
Amortised cost	Available- for-sale	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value							
Unquoted shares	-	5,105	5,105	-	-	5,105	5,105
Government securities	-	81,935,080	81,935,080	-	81,935,080	-	81,935,080
Bank of Jamaica securities	-	1,080,121	1,080,121	-	1,080,121	-	1,080,121
Corporate bonds	-	24,140,590	24,140,590	-	24,140,590	-	24,140,590
Unitised funds	-	274,669	274,669	-	274,669	-	274,669
	<u>-</u>	<u>107,435,565</u>	<u>107,435,565</u>	<u>-</u>	<u>107,430,460</u>	<u>5,105</u>	<u>107,435,565</u>
Pledged assets measured at fair value							
Government securities	<u>-</u>	<u>1,507,981</u>	<u>1,507,981</u>	<u>-</u>	<u>1,507,981</u>	<u>-</u>	<u>1,507,981</u>
Financial assets not measured at fair value							
Loans and receivables	61,780,342	-	61,780,342	-	-	63,759,192	63,759,192
Held to maturity							
Government securities	<u>1,019,914</u>	<u>-</u>	<u>1,019,914</u>	<u>-</u>	<u>1,017,388</u>	<u>-</u>	<u>1,017,388</u>
	<u>62,800,256</u>	<u>-</u>	<u>62,800,256</u>	<u>-</u>	<u>1,017,388</u>	<u>63,759,192</u>	<u>64,776,580</u>
	The Bank						
	2018						
	Carrying amount			Fair value			
Amortised cost	Available- for-sale	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value							
Government securities	-	60,730,498	60,730,498	-	60,730,498	-	60,730,498
Unquoted shares	-	5,105	5,105	-	-	5,105	5,105
Treasury bills	-	4,780,294	4,780,294	-	4,780,294	-	4,780,294
Corporate bonds	-	12,827,792	12,827,792	-	12,827,792	-	12,827,792
	<u>-</u>	<u>78,343,689</u>	<u>78,343,689</u>	<u>-</u>	<u>78,338,584</u>	<u>5,105</u>	<u>78,343,689</u>
Pledged assets measured at fair value:							
Government securities	<u>-</u>	<u>1,554,672</u>	<u>1,554,672</u>	<u>-</u>	<u>1,554,672</u>	<u>-</u>	<u>1,554,672</u>
Financial assets not measured at fair value							
Loans and receivables	<u>58,302,955</u>	<u>-</u>	<u>58,302,955</u>	<u>-</u>	<u>-</u>	<u>60,650,650</u>	<u>60,650,650</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Fair value of financial instruments (continued)**

Accounting classifications and fair values (continued)

	The Bank							
	2017							
	Carrying amount				Fair value			
Amortised cost	Available-for-sale	Fair value through profit or loss	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value:								
Government securities	-	32,858,066	-	32,858,066	-	32,858,066	-	32,858,066
Bank of Jamaica securities	-	1,080,121	-	1,080,121	-	1,080,121	-	1,080,121
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
Corporate bonds	-	24,140,590	-	24,140,590	-	24,140,590	-	24,140,590
	<u>-</u>	<u>58,083,882</u>	<u>-</u>	<u>58,083,882</u>	<u>-</u>	<u>58,078,777</u>	<u>5,105</u>	<u>58,083,882</u>
Pledged assets measured at fair value:								
Government securities	<u>-</u>	<u>1,507,981</u>	<u>-</u>	<u>1,507,981</u>	<u>-</u>	<u>1,507,981</u>	<u>-</u>	<u>1,507,981</u>
Financial assets not measured at fair value								
Loans and receivables	<u>55,917,625</u>	<u>-</u>	<u>-</u>	<u>55,917,625</u>	<u>-</u>	<u>-</u>	<u>57,625,028</u>	<u>57,625,028</u>

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

45. Capital risk management

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Capital risk management (continued)**

Each individual banking, investment and insurance subsidiary is directly regulated by its designated regulator, who sets and monitors each entity's capital adequacy requirements. Required capital adequacy information is filed with the regulators at least quarterly.

Banking and Mortgage lending

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

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

Regulatory capital is divided into two tiers:

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

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

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

The table below summarises the composition of regulatory capital, the ratios for each component and the applicable regulator. During the year, the individual entities complied with all of the externally imposed capital requirements.

	Regulated by BOJ			
	The Scotia Jamaica Building Society		The Bank	
	2018	2017	2018	2017
Tier 1 Capital	5,250,000	5,250,000	39,909,535	33,900,498
Tier 2 Capital	129,755	123,999	1,550,172	1,361,280
Total regulatory capital	5,379,755	5,373,999	41,459,707	35,261,778
Less prescribed deductions	-	-	(220,000)	(220,000)
	<u>5,379,755</u>	<u>5,373,999</u>	<u>41,239,707</u>	<u>35,041,778</u>
Risk weighted assets				
On-balance sheet	14,967,344	14,819,685	216,390,660	201,681,844
Off balance sheet	184,635	1,228,532	26,958,854	26,754,641
Foreign exchange exposure	-	19	587,741	922,679
Total risk weighted assets	<u>15,151,979</u>	<u>16,048,236</u>	<u>243,937,255</u>	<u>229,359,164</u>
Actual regulatory capital to risk weighted assets	35.5%	33.5%	16.9%	15.3%
Regulatory requirement	10.0%	10.0%	10.0%	10.0%

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Capital risk management (continued)****Life Insurance**

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

	<u>2018</u>	<u>2017</u>
Regulatory capital held	9,978,945	7,550,218
Minimum regulatory capital	1,419,469	1,376,113
Minimum Continuing Capital and Surplus Requirement Ratio	<u>703%</u>	<u>549%</u>

46. Commitments

	<u>The Group</u>		<u>The Bank</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
(a) Commitments to extend credit:				
Originated term to maturity of more than one year	<u>28,247,570</u>	<u>29,260,362</u>	<u>28,062,935</u>	<u>28,031,830</u>

(b) Operating lease commitments:

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

	<u>The Group and the Bank</u>	
	<u>2018</u>	<u>2017</u>
Up to one year	122,896	127,634
One to five years	523,123	520,059
Over five years	<u>1,621,684</u>	<u>1,737,945</u>
	<u>2,267,703</u>	<u>2,385,638</u>

47. Litigation and contingent liabilities

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

47. Litigation and contingent liabilities (continued)

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

48. Dividends

(a) Paid

The Bank paid dividends of \$1.29 per share on January 18, 2018, April 18, 2018, and October 24, 2018, as follows:

	<u>The Group and the Bank</u>	
	2018	2017
In respect of 2016	-	1,258,710
In respect of 2017	1,258,710	3,776,129
In respect of 2018	<u>2,517,419</u>	<u>-</u>
	<u>3,776,129</u>	<u>5,034,839</u>

(b) Proposed

At the Board of Directors meeting on December 5, 2018, a dividend in respect of 2018 of \$0.48 per share (2017: \$0.43 per share) amounting to \$1,405,071 was proposed. (2017: \$1,258,710).

49. Employee Share Ownership Plan

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

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

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

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to \$39,853 (2017: \$34,266).

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2018***(Expressed in thousands of Jamaican dollars unless otherwise stated)***49. Employee Share Ownership Plan (continued)**

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

	<u>The Group</u>	
	<u>2018</u>	<u>2017</u>
Number of shares	<u>1,066,513</u>	<u>1,186,952</u>
Fair value of shares	<u>57,293</u>	<u>60,831</u>

50. Fiduciary activities

The Group provides administration and investment management services to an approved retirement scheme. This involves the Group making allocation and purchase and sale decisions in relation to fixed income securities. Those assets that are held in a fiduciary capacity are not included in these financial statements. As at the reporting date, the Group had financial assets under administration of approximately \$10,670,342 (2017: \$8,564,425).

51. Subsequent Events

On November 27, 2018 the Bank announced that it will enter into a 20-year distribution agreement with Sagicor Financial Corporation Limited ("Sagicor") through which an enhanced suite of market-leading insurance products and solutions, underwritten by Sagicor, will be offered to Scotiabank customers in Jamaica. As part of this partnership, Scotiabank has entered into an agreement to sell its insurance subsidiary - Scotia Jamaica Life Insurance Company. These agreements are subject to regulatory approval and customary closing conditions. The transaction is also subject to the closing of the announced transaction whereby Sagicor will be acquired by Alignvest Acquisition II Corporation subject to conditions in and pursuant to a plan of arrangement, and the surviving entity will continue the Sagicor brand and be publicly-listed on the Toronto Stock Exchange.

This transaction is in line with the Group's strategic direction to simplify its operations, focus on growth in core businesses and deliver value to shareholders. Until the relevant approvals are obtained, conditions met, and the transaction closes, operations will continue as usual.