



KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922-6640
firmmail@kpmg.com.jm

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 separate financial statements of The Bank of Nova Scotia Jamaica Limited ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), set out on pages 5 to 121, which comprise the Group's and the Bank's statements of financial position as at October 31, 2019, 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, 2019, 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.

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

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



Page 2

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.



Page 3

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.



Page 4

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' in a cursive, stylized font.

Chartered Accountants
Kingston, Jamaica

December 10, 2019

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Revenue and Expenses****Year ended October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Net interest income and other revenue			
Net interest income, calculated using the effective interest method			
Interest from loans and deposits with banks		22,647,784	21,858,276
Interest from securities		<u>4,056,440</u>	<u>5,068,296</u>
Total interest income	7	26,704,224	26,926,572
Interest expense	7	<u>(2,768,980)</u>	<u>(3,172,731)</u>
Net interest income		23,935,244	23,753,841
Expected credit losses		<u>(2,587,233)</u>	<u>(1,904,391)</u>
Net interest income after impairment losses on loans		<u>21,348,011</u>	<u>21,849,450</u>
Other revenue			
Fee and commission income	8	14,223,238	13,344,448
Fee and commission expense	8	<u>(7,928,559)</u>	<u>(6,767,110)</u>
Net fee and commission income		6,294,679	6,577,338
Net gains on foreign currency activities	9	5,583,741	3,923,740
Insurance revenue	10	3,302,198	2,931,627
Other revenue/(expense)	11	185,933	(1,878)
Net gains on financial assets		<u>735,158</u>	<u>626,016</u>
		<u>16,101,709</u>	<u>14,056,843</u>
		<u>37,449,720</u>	<u>35,906,293</u>
Expenses			
Salaries, pension contributions and other staff benefits	12	10,270,734	9,537,831
Property expenses, including depreciation		2,056,335	2,073,776
Asset tax		1,067,056	973,116
Other operating expenses		<u>9,183,677</u>	<u>7,780,632</u>
	13	<u>22,577,802</u>	<u>20,365,355</u>
Profit before taxation	14	14,871,918	15,540,938
Taxation	15	<u>(4,676,644)</u>	<u>(4,977,371)</u>
Profit for the year		<u>10,195,274</u>	<u>10,563,567</u>
Earnings per stock unit (expressed in \$)	16	<u>3.48</u>	<u>3.61</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Profit for the year		<u>10,195,274</u>	<u>10,563,567</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefits plan	30	8,136,799	7,636,885
Taxation	36	<u>(2,712,266)</u>	<u>(2,545,628)</u>
		<u>5,424,533</u>	<u>5,091,257</u>
Items that are or may be reclassified to profit or loss:			
Unrealised gains on investment securities		186,121	2,243,027
Realised gains on investment securities transferred to profit		<u>(677,158)</u>	<u>(591,608)</u>
Expected credit loss adjustment on investment securities		<u>(74,216)</u>	<u>-</u>
Taxation	36	<u>(565,253)</u> <u>24,457</u>	<u>1,651,419)</u> <u>(332,070)</u>
		<u>(540,796)</u>	<u>1,319,349</u>
Other comprehensive income, net of tax		<u>4,883,737</u>	<u>6,410,606</u>
Total comprehensive income		<u>15,079,011</u>	<u>16,974,173</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	17	70,044,338	69,025,629
Government and bank notes other than Jamaican	18	1,431,305	898,300
Due from other banks	19	32,216,896	16,772,219
Accounts with parent and fellow subsidiaries	20	<u>16,951,321</u>	<u>22,902,739</u>
		<u>120,643,860</u>	<u>109,598,887</u>
Government securities purchased under resale agreements	21	<u>600,518</u>	<u>300,473</u>
Pledged assets	22	<u>1,666,966</u>	<u>1,554,672</u>
Loans, net of allowance for credit losses	23	<u>205,545,956</u>	<u>182,525,501</u>
Financial assets at fair value through profit or loss	25	<u>2,677,078</u>	<u>-</u>
Investment securities	26	<u>116,068,253</u>	<u>129,789,645</u>
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		7,089,787	8,455,218
Taxation recoverable		2,100,781	2,145,761
Sundry assets	27	1,997,526	1,742,860
Property, plant and equipment	28	5,813,070	5,290,606
Intangible assets	29	107,341	131,468
Retirement benefits asset	30	<u>43,704,650</u>	<u>34,517,087</u>
		<u>60,813,155</u>	<u>52,283,000</u>
		<u>508,015,786</u>	<u>476,052,178</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*


	Notes	2019	2018
LIABILITIES			
Deposits by the public	31	312,968,147	287,948,379
Due to other banks and financial institutions	32	7,127,995	6,823,007
Due to parent and ultimate parent company	33	4,858,125	7,539,234
Due to fellow subsidiaries	34	<u>7,140,185</u>	<u>5,208,255</u>
		<u>332,094,452</u>	<u>307,518,875</u>
Other liabilities			
Cheques and other instruments in transit		2,096,168	2,213,198
Acceptances, guarantees and letters of credit		7,129,452	8,455,218
Other liabilities	35	5,916,986	5,753,810
Taxation payable		959,699	601,592
Deferred tax liabilities	36	13,073,533	10,778,908
Retirement benefits obligations	30	<u>4,646,759</u>	<u>4,727,215</u>
		<u>33,822,597</u>	<u>32,529,941</u>
Policyholders' liabilities	37	<u>45,140,043</u>	<u>45,292,329</u>
EQUITY			
Share capital	38	2,927,232	2,927,232
Reserve fund	39	3,159,866	3,159,866
Retained earnings reserve	40	47,052,091	39,052,091
Cumulative remeasurement gains from investment securities	41	983,729	1,974,719
Capital reserve	42	9,383	9,383
Loan loss reserve	43	2,293,023	2,366,809
Unappropriated profits		<u>40,533,370</u>	<u>41,220,933</u>
		<u>96,958,694</u>	<u>90,711,033</u>
		<u>508,015,786</u>	<u>476,052,178</u>

The financial statements on pages 5 to 121 were approved for issue by the Board of Directors and signed on its behalf on December 6, 2019 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, 2019**

(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 investment securities</u>	<u>Capital reserve</u>	<u>Loan loss reserve</u>	<u>Unappropriated profits</u>	<u>Total</u>
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 benefit 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 from loan loss reserve		-	-	-	-	-	(309,207)	309,207	-
Dividends paid	50	-	-	-	-	-	-	(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		2,927,232	3,159,866	39,052,091	1,974,719	9,383	2,366,809	41,220,933	90,711,033
Cumulative effect of adopting IFRS 9		-	-	-	(450,194)	-	-	(477,630)	(927,824)
Adjusted balances at November 1, 2018		<u>2,927,232</u>	<u>3,159,866</u>	<u>39,052,091</u>	<u>1,524,525</u>	<u>9,383</u>	<u>2,366,809</u>	<u>40,743,303</u>	<u>89,783,209</u>
Profit for the year		-	-	-	-	-	-	10,195,274	10,195,274
Other comprehensive income:									
Remeasurement of retirement benefits asset/ obligation, net of taxes		-	-	-	-	-	-	5,424,533	5,424,533
Unrealised losses on investment securities, net of taxes and provisions		-	-	-	(17,409)	-	-	-	(17,409)
Realised gains on investment securities, net of taxes		-	-	-	(523,387)	-	-	-	(523,387)
Total other comprehensive income		-	-	-	(540,796)	-	-	5,424,533	4,883,737
Total comprehensive income		-	-	-	(540,796)	-	-	15,619,807	15,079,011
Transfer to retained earnings reserve		-	-	8,000,000	-	-	-	(8,000,000)	-
Transfer from loan loss reserve		-	-	-	-	-	(73,786)	73,786	-
Dividends paid	50	-	-	-	-	-	-	(7,903,526)	(7,903,526)
Net movement for the year		-	-	8,000,000	-	-	(73,786)	(15,829,740)	(7,903,526)
Balances at October 31, 2019		<u>2,927,232</u>	<u>3,159,866</u>	<u>47,052,091</u>	<u>983,729</u>	<u>9,383</u>	<u>2,293,023</u>	<u>40,533,370</u>	<u>96,958,694</u>

6

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, 2019*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		10,195,274	10,563,567
Adjustments for:			
Taxation charge	15	4,676,644	4,977,371
Depreciation	28	546,239	563,073
Amortisation of intangible assets	29	24,128	25,805
Expected credit losses		3,403,039	3,189,420
(Gain)/loss on sale of property, plant and equipment	11	(185,933)	1,878
Increase in retirement benefit assets/obligations	12	(1,016,854)	(889,679)
		17,642,537	18,431,435
Interest income	7	(26,704,224)	(26,926,572)
Interest expense	7	<u>2,768,980</u>	<u>3,172,731</u>
		(6,292,707)	(5,322,406)
Changes in operating assets and liabilities			
Loans		(27,665,796)	(19,306,093)
Deposits by the public		25,045,477	27,398,575
Policyholders' liabilities		(152,286)	121,173
Sundry assets, net		(254,670)	(19,198)
Other liabilities, net		163,178	1,081,357
Due to parent company and fellow subsidiaries		(729,979)	827,299
Accounts with parent and fellow subsidiaries		(4,818,403)	(324,421)
Taxation recoverable		44,980	(831,181)
Due to other banks and financial institutions		309,901	754,950
Deposit with Bank of Jamaica maturing after ninety days		-	655,915
Statutory reserves at Bank of Jamaica		5,955,744	(3,379,070)
Guarantees and acceptances (net)		118	-
Retirement benefits asset /obligations		(114,366)	(126,569)
		(8,508,809)	1,530,331
Interest received		26,828,943	27,004,949
Interest paid		(2,818,802)	(3,195,123)
Taxation paid		(4,298,548)	(5,972,288)
Net cash provided by operating activities		<u>11,202,784</u>	<u>19,367,869</u>
Cash flows from investing activities			
Investment securities		10,333,302	(19,757,565)
Pledged assets		(111,871)	(54,353)
Proceeds of sale of property, plant and equipment		225,604	3,665
Purchase of property, plant and equipment	28	(1,108,374)	(543,792)
Purchase of intangible assets	29	-	(14,767)
Net cash provided/(used) in investing activities		<u>9,338,661</u>	<u>(20,366,812)</u>
Net cash flows from operating and investing activities (carried forward to page 11)			
		<u>20,541,445</u>	<u>(998,943)</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Cash flows from operating and investing activities (brought forward from page 10)		<u>20,541,445</u>	<u>(998,943)</u>
Cash flows from financing activity			
Dividends paid	50	<u>(7,903,526)</u>	<u>(3,776,129)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>4,818,403</u>	<u>324,421</u>
Net increase/(decrease) in cash and cash equivalents		17,456,322	(4,450,651)
Cash and cash equivalents at beginning of year		<u>69,761,303</u>	<u>74,211,954</u>
Cash and cash equivalents at end of year	18	<u>87,217,625</u>	<u>69,761,303</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Net interest income and other revenue			
Net interest income, calculated using the effective interest method			
Interest from loans and deposits with banks		20,222,442	19,156,547
Income from securities		<u>1,874,975</u>	<u>2,275,404</u>
Total interest income	7	22,097,417	21,431,951
Interest expense	7	<u>(869,919)</u>	<u>(1,058,349)</u>
Net interest income		21,227,498	20,373,602
Expected credit losses		<u>(2,625,897)</u>	<u>(1,865,749)</u>
Net interest income after impairment losses on loans		<u>18,601,601</u>	<u>18,507,853</u>
Other income			
Fee and commission income	8	13,907,327	13,028,558
Fee and commission expense	8	<u>(7,928,559)</u>	<u>(6,767,110)</u>
Net fee and commission income		5,978,768	6,261,448
Net gains on foreign currency activities	9	5,583,758	3,923,397
Other revenue	11	4,026,564	1,443,707
Net gains on financial assets		<u>153,410</u>	<u>352,296</u>
		<u>15,742,500</u>	<u>11,980,848</u>
		<u>34,344,101</u>	<u>30,488,701</u>
Expenses			
Salaries, pension contributions and other staff benefits	12	9,639,873	8,903,586
Property expenses, including depreciation		1,987,245	1,992,299
Asset tax		862,862	769,345
Other operating expenses		<u>8,642,925</u>	<u>7,210,371</u>
	13	<u>21,132,905</u>	<u>18,875,601</u>
Profit before taxation	14	13,211,196	11,613,100
Taxation	15	<u>(3,279,077)</u>	<u>(3,453,051)</u>
Profit for the year		<u>9,932,119</u>	<u>8,160,049</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Profit for the year		<u>9,932,119</u>	<u>8,160,049</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefits plans	30	8,136,799	7,636,885
Taxation	36	<u>(2,712,266)</u>	<u>(2,545,628)</u>
		<u>5,424,533</u>	<u>5,091,257</u>
Items that are or may be reclassified to profit or loss			
Unrealised gains/(losses) on investment securities		581,146	(29,935)
Realised gains on available-for-sale financial assets transferred to profit		(160,780)	(234,889)
Expected credit loss adjustments on investment securities		<u>(33,472)</u>	<u>-</u>
Taxation	36	<u>386,894</u> <u>(198,779)</u>	<u>(264,824)</u> <u>146,991</u>
		<u>188,115</u>	<u>(117,833)</u>
Other comprehensive income, net of tax		<u>5,612,648</u>	<u>4,973,424</u>
Total comprehensive income		<u>15,544,767</u>	<u>13,133,473</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	17	67,858,857	63,104,357
Government and bank notes other than Jamaican	18	1,431,305	898,300
Due from other banks	19	32,216,896	16,772,219
Accounts with parent and fellow subsidiaries	20	<u>16,951,321</u>	<u>22,902,739</u>
		<u>118,458,379</u>	<u>103,677,615</u>
Government securities purchased under resale agreements	21	<u>600,518</u>	<u>300,473</u>
Pledged assets	22	<u>1,666,966</u>	<u>1,554,672</u>
Loans, net of allowance for credit losses	23	<u>178,885,119</u>	<u>152,824,778</u>
Financial assets at fair value through profit or loss	25	<u>706,176</u>	<u>-</u>
Investment securities	26	<u>64,929,956</u>	<u>78,343,689</u>
Investment in subsidiaries		<u>220,000</u>	<u>220,000</u>
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		6,962,563	8,270,584
Taxation recoverable		343,644	822,647
Sundry assets	27	1,986,164	1,732,636
Property, plant and equipment	28	5,788,971	5,264,314
Intangible assets	29	27,527	49,654
Retirement benefits asset	30	<u>43,704,650</u>	<u>34,517,087</u>
		<u>58,813,519</u>	<u>50,656,922</u>
		<u>424,280,633</u>	<u>387,578,149</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*


	Notes	2019	2018
LIABILITIES			
Deposits by the public	31	304,538,247	278,976,418
Due to other banks and financial institutions	32	1,698,610	1,182,434
Due to parent and ultimate parent company	33	4,858,125	7,539,234
Due to subsidiaries	34	2,748,363	1,352,451
Due to fellow subsidiaries	34	<u>5,177,558</u>	<u>1,743,281</u>
		<u>319,020,903</u>	<u>290,793,818</u>
Other liabilities			
Cheques and other instruments in transit		2,343,813	2,461,911
Acceptances, guarantees and letters of credit		7,000,742	8,270,584
Other liabilities	35	5,701,649	5,468,407
Taxation payable		596,593	454,077
Deferred tax liabilities	36	12,532,999	9,851,607
Retirement benefits obligations	30	<u>4,646,759</u>	<u>4,727,215</u>
		<u>32,822,555</u>	<u>31,233,801</u>
EQUITY			
Share capital	38	2,927,232	2,927,232
Reserve fund	39	2,930,616	2,930,616
Retained earnings reserve	40	42,101,341	34,101,341
Cumulative remeasurement result from investment securities	41	150,277	41,994
Capital reserve	42	42,087	42,087
Loan loss reserve	43	1,952,792	1,701,284
Unappropriated profits		<u>22,332,830</u>	<u>23,805,976</u>
		<u>72,437,175</u>	<u>65,550,530</u>
		<u>424,280,633</u>	<u>387,578,149</u>

The financial statements on pages 5 to 121 were approved for issue by the Board of Directors and signed on its behalf on December 6, 2019 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

**Statement of Changes in Stockholders' Equity
Year ended October 31, 2019**

(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 investment securities</u>	<u>Capital reserve</u>	<u>Loan loss reserve</u>	<u>Unappropriated profits</u>	<u>Total</u>
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		-	-	-	-	-	-	<u>8,160,049</u>	<u>8,160,049</u>
Other comprehensive income:									
Remeasurement of retirement benefits asset/obligation, net of taxes		-	-	-	-	-	-	<u>5,091,257</u>	<u>5,091,257</u>
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	<u>94,092</u>	-	-	-	<u>94,092</u>
Realised gains on available-for-sale securities transferred, net of taxes		-	-	-	<u>(211,925)</u>	-	-	-	<u>(211,925)</u>
Total other comprehensive income		-	-	-	<u>(117,833)</u>	-	-	<u>5,091,257</u>	<u>4,973,424</u>
Total comprehensive income		-	-	-	<u>(117,833)</u>	-	-	<u>13,251,306</u>	<u>13,133,473</u>
Transfer to retained earnings reserve		-	-	<u>6,000,000</u>	-	-	-	<u>(6,000,000)</u>	-
Transfer from loan loss reserve		-	-	-	-	-	<u>(406,381)</u>	<u>406,381</u>	-
Dividends paid	50	-	-	-	-	-	-	<u>(3,776,129)</u>	<u>(3,776,129)</u>
Net movement for the year		-	-	<u>6,000,000</u>	-	-	<u>(406,381)</u>	<u>(9,369,748)</u>	<u>(3,776,129)</u>
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>
Cumulative effect of adopting IFRS 9		-	-	-	<u>(79,832)</u>	-	-	<u>(674,764)</u>	<u>(754,596)</u>
Balance as at November 1, 2018		<u>2,927,232</u>	<u>2,930,616</u>	<u>34,101,341</u>	<u>(37,838)</u>	<u>42,087</u>	<u>1,701,284</u>	<u>23,131,212</u>	<u>64,795,934</u>
Profit for the year		-	-	-	-	-	-	<u>9,932,119</u>	<u>9,932,119</u>
Other comprehensive income:									
Remeasurement of retirement benefits asset/obligations, net of taxes		-	-	-	-	-	-	<u>5,424,533</u>	<u>5,424,533</u>
Unrealised gains on investment securities, net of taxes and provisions		-	-	-	<u>295,302</u>	-	-	-	<u>295,302</u>
Realised gains on investment securities transferred, net of taxes		-	-	-	<u>(107,187)</u>	-	-	-	<u>(107,187)</u>
Total other comprehensive income		-	-	-	<u>188,115</u>	-	-	<u>5,424,533</u>	<u>5,612,648</u>
Total comprehensive income		-	-	-	<u>188,115</u>	-	-	<u>15,356,652</u>	<u>15,544,767</u>
Transfer to retained earnings reserve		-	-	<u>8,000,000</u>	-	-	-	<u>(8,000,000)</u>	-
Transfer to loan loss reserve		-	-	-	-	-	<u>251,508</u>	<u>(251,508)</u>	-
Dividends paid	50	-	-	-	-	-	-	<u>(7,903,526)</u>	<u>(7,903,526)</u>
Net movement for the year		-	-	<u>8,000,000</u>	-	-	<u>251,508</u>	<u>(16,155,034)</u>	<u>(7,903,526)</u>
Balances at October 31, 2019		<u>2,927,232</u>	<u>2,930,616</u>	<u>42,101,341</u>	<u>150,277</u>	<u>42,087</u>	<u>1,952,792</u>	<u>22,332,830</u>	<u>72,437,175</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Cash Flows**
Year ended October 31, 2019*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		9,932,119	8,160,049
Adjustments for:			
Taxation charge	15	3,279,077	3,453,051
Depreciation	28	543,510	558,406
Amortisation of intangible assets	29	22,127	23,804
Expected credit losses		3,339,950	3,126,678
(Gain)/loss on sale of property, plant and equipment		(185,933)	1,878
Increase in retirement benefits asset/obligation	12	(1,016,854)	(889,679)
		15,913,996	14,434,187
Interest income	7	(22,097,417)	(21,431,951)
Interest expense	7	869,919	1,058,349
		(5,313,502)	(5,939,415)
Changes in operating assets and liabilities			
Loans		(30,370,228)	(19,171,109)
Deposits by the public		25,574,668	27,655,672
Statutory reserves at Bank of Jamaica		5,945,042	(3,375,883)
Other liabilities, net		233,245	1,050,512
Due to parent company and fellow subsidiaries		2,160,232	325,410
Amounts with parents and fellow subsidiaries		(4,818,303)	(324,522)
Amounts due to other banks and financial institutions		516,176	430,355
Other assets, net		(253,529)	(19,049)
Securities sold under repurchase agreements		118	-
Taxation recoverable		479,003	(416,343)
Retirement benefits asset/obligations		(114,366)	(126,569)
		(5,961,444)	89,059
Interest received		22,142,597	21,479,507
Interest paid		(893,910)	(1,064,943)
Taxation paid		(3,046,949)	(4,394,043)
Net cash provided by operating activities		<u>12,240,294</u>	<u>16,109,580</u>
Cash flows from investing activities			
Investment securities		13,013,005	(20,542,224)
Pledged assets		(111,870)	(54,354)
Proceeds from sale of property, plant and equipment		225,604	3,666
Purchase of property, plant and equipment	28	(1,107,838)	(542,965)
Purchase of intangible assets	29	-	(14,767)
Net cash provided/(used) by investing activities		<u>12,018,901</u>	<u>(21,150,644)</u>
Net cash flows from operating and investing activities (carried forward to page 18)		<u>24,259,195</u>	<u>(5,041,064)</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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Cash flows from operating and investing activities (brought forward from page 17)		<u>24,259,195</u>	<u>(5,041,064)</u>
Cash flows from financing activity			
Dividends paid, being net cash used by financing activity	50	<u>(7,903,526)</u>	<u>(3,776,129)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>4,818,303</u>	<u>324,522</u>
Net increase/(decrease) in cash and cash equivalents		21,173,972	(8,492,671)
Cash and cash equivalents at beginning of year		<u>63,729,458</u>	<u>72,222,129</u>
Cash and cash equivalents at end of year	18	<u>84,903,430</u>	<u>63,729,458</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, 2019

(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, 2019.

2. Changes in significant accounting policies

The Group applied IFRS 9 and IFRS 15 from November 1, 2018. A number of other new standards are also effective from November 1, 2018, but they do not have a material effect on the Group’s financial statements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets;
- reclassification of fair value measurement of certain investment securities; and
- additional disclosures related to IFRS 9 [see notes 24 and 45(b)(iii)].

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Changes in significant accounting policies (continued)***IFRS 9 Financial Instruments (continued)*

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and other comprehensive income (OCI) of interest revenue calculated using the effective interest method.

Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2019, but have not been applied to the comparative information.

Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in note 3.

- (a) The impact, net of tax, of transition to IFRS 9 on the opening unappropriated profits and investment revaluation reserve are as follows:

Unappropriated profits:

	<u>The Group</u>	<u>The Bank</u>
Balance as at October 31, 2018	41,220,933	23,805,976
Reclassification of investment from available for sale (AFS) to FVTPL	550,776	121,209
Recognition of expected credit losses under IFRS 9:		
Loans and receivables	(1,217,679)	(974,260)
Investments at FVOCI	(141,003)	(62,063)
Other financial assets (Guarantees and deposits with banks)	(82,896)	(78,915)
Related deferred tax	<u>413,172</u>	<u>319,265</u>
	<u>(477,630)</u>	<u>(674,764)</u>
Opening balance under IFRS 9 as at November 1, 2018	<u>40,743,303</u>	<u>23,131,212</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Changes in significant accounting policies (continued)**IFRS 9 *Financial Instruments* (continued)

(a) (continued)

Cumulative remeasurement on investment securities:

	<u>The Group</u>	<u>The Bank</u>
Balance as at October 31, 2018	1,974,719	41,994
Reclassification of investment from AFS to FVTPL	(550,776)	(121,209)
Recognition of expected credit losses:		
Investments at FVOCI	141,003	62,063
Related deferred tax	(40,421)	(20,686)
	<u>(450,194)</u>	<u>(79,832)</u>
Opening balance under IFRS 9 as at November 1, 2018	<u>1,524,525</u>	<u>(37,838)</u>

(b) Classification and measurement of financial instruments

IFRS 9 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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities as IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation on how the Group classifies and measures financial instruments under IFRS 9, see note 3(l).

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories and amounts under IFRS 9 for each class of the Group's financial assets and financial liabilities as at November 1, 2018.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Changes in significant accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(b) Classification and measurement of financial instruments (continued)

			The Group				
	Note	IAS 39 Classification	IFRS 9 Classification	IAS 39 carrying amount October 31, 2018	Reclassification	Remeasurement	IFRS 9 carrying amount at November 1, 2018
Financial assets							
Cash and cash balances at							
Bank of Jamaica		Loans and receivables	Amortised cost	69,025,629	-	(47,101)	68,978,528
Government and bank notes		Loans and receivables	Amortised cost	898,300	-	-	898,300
other than Jamaican		Loans and receivables	Amortised cost	16,772,219	-	-	16,772,219
Due from other banks		Loans and receivables	Amortised cost	22,902,739	-	-	22,902,739
Accounts with parent and		Loans and receivables	Amortised cost	1,554,672	-	-	1,554,672
fellow subsidiaries		Available-for-sale	FVOCI	182,525,501	-	(1,217,679)	181,307,822
Pledged assets		Loans and receivables	Amortised cost	129,485,800	(2,351,022)	-	127,134,778
Loans, after allowance for		Available-for-sale	FVOCI	-	2,351,022	-	2,351,022
impairment losses		Available-for-sale	FVOCI	303,845	(298,740)	-	5,105
Investments – debt securities		Available-for-sale	FVTPL	-	298,740	-	298,740
Investments – debt securities		Available-for-sale	FVTPL	-	-	-	-
Investments – equity securities		Available-for-sale	FVOCI	300,473	-	-	300,473
Investments – equity securities		Available-for-sale	FVTPL	-	-	-	-
Securities purchased under		Loans and receivables	Amortised cost	300,473	-	-	300,473
resale agreements		Loans and receivables	Amortised cost	8,455,218	-	(35,795)	8,419,423
Customers liabilities under acceptances		Loans and receivables	Amortised cost	8,455,218	-	(35,795)	8,419,423
guarantees and letter of credit		Loans and receivables	Amortised cost	<u>432,224,396</u>	<u>-</u>	<u>(1,300,575)</u>	<u>430,923,821</u>
Total financial assets				<u>432,224,396</u>	<u>-</u>	<u>(1,300,575)</u>	<u>430,923,821</u>
Financial liabilities							
Deposits by the public		Other liabilities	Amortised cost	287,948,379	-	-	287,948,379
Due to other banks and		Other liabilities	Amortised cost	6,823,007	-	-	6,823,007
financial institutions		Other liabilities	Amortised cost	7,539,234	-	-	7,539,234
Due to ultimate parent company		Other liabilities	Amortised cost	5,208,255	-	-	5,208,255
Due to fellow subsidiaries		Other liabilities	Amortised cost	2,213,198	-	-	2,213,198
Cheques and other instruments		Other liabilities	Amortised cost	2,213,198	-	-	2,213,198
in transit		Other liabilities	Amortised cost	8,455,218	-	-	8,455,218
Acceptances, guarantees and		Other liabilities	Amortised cost	8,455,218	-	-	8,455,218
letters of credit		Other liabilities	Amortised cost	<u>318,187,291</u>	<u>-</u>	<u>-</u>	<u>318,187,291</u>
Total financial liabilities				<u>318,187,291</u>	<u>-</u>	<u>-</u>	<u>318,187,291</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Changes in significant accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(b) Classification and measurement of financial instruments (continued)

			The Bank IAS 39 carrying amount 31 October 2018			IFRS 9 carrying amount at November 1, 2018
	Note	IAS 39 Classification	IFRS 9 Classification	Reclassification	Remeasurement	
Financial assets						
Cash and cash balances at						
Bank of Jamaica		Loans and receivables	Amortised cost	-	(45,942)	63,058,415
Government and bank notes other than Jamaican		Loans and receivables	Amortised cost	-	-	898,300
Due from other banks		Loans and receivables	Amortised cost	-	-	16,772,219
Accounts with parent and fellow subsidiaries		Loans and receivables	Amortised cost	-	-	22,902,739
Pledged assets		Available-for-sale	FVOCI	-	-	1,554,672
Loans, after allowance for impairment losses		Loans and receivables	Amortised cost	-	(974,260)	151,850,518
Investments – debt securities		Available-for-sale	FVOCI	78,338,584	(705,683)	77,632,901
Investments – debt securities		Available-for-sale	FVTPL	-	705,683	705,683
Investments – equity securities		Available-for-sale	FVOCI	5,105	-	5,105
Securities purchased under resale agreements		Loans and receivables	Amortised cost	-	-	300,473
Customers liabilities under acceptances guarantees and letter of credit		Loans and receivables	Amortised cost	-	(32,973)	8,237,611
Total financial assets			<u>344,971,811</u>	<u>-</u>	<u>(1,053,175)</u>	<u>343,918,636</u>
Financial liabilities						
Deposits by the public		Other liabilities	Amortised cost	-	-	278,976,418
Due to other banks and financial institutions		Other liabilities	Amortised cost	-	-	1,182,434
Due to ultimate parent company		Other liabilities	Amortised cost	-	-	7,539,234
Due to subsidiaries		Other liabilities	Amortised cost	-	-	1,352,451
Due to fellow subsidiaries		Other liabilities	Amortised cost	-	-	1,743,281
Cheques and other instruments in transit		Other liabilities	Amortised cost	-	-	2,461,911
Acceptances, guarantees and letters of credit		Other liabilities	Amortised cost	-	-	8,270,584
Total financial liabilities			<u>8,270,584</u>	<u>-</u>	<u>-</u>	<u>8,270,584</u>
			<u>301,526,313</u>	<u>-</u>	<u>-</u>	<u>301,526,313</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)
October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Changes in significant accounting policies (continued)**IFRS 9 *Financial Instruments* (continued)

(c) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Transition

Application of IFRS 9's impairment requirements at November 1, 2018 resulted in additional allowances for impairment as follows:

	<u>The Group</u>	<u>The Bank</u>	
Adjustments on:			
Loss allowance at October 31, 2018 under IAS 39	2,204,887	2,027,298	
Loans and receivables	1,217,679	974,260	
Deposits with financial institutions	47,101	45,942	
Investment securities	141,003	62,063	
Customers' liabilities under acceptances	<u>35,795</u>	<u>32,973</u>	
Loss allowance at November 1, 2019 under IFRS 9	<u>3,646,465</u>	<u>3,142,536</u>	
	<u>The Group</u>		
	Impairment allowance under IAS 39 (October 31, 2018)	Allowance for expected credit losses under IFRS 9 (November 1, 2018)	
		Adjustments	
Loans and acceptances	2,204,887	1,217,679	3,422,566
Investment securities	-	141,003	141,003
Deposits with financial institutions	-	47,101	47,101
Customers' liabilities under acceptances	<u>-</u>	<u>35,795</u>	<u>35,795</u>
Total	<u>2,204,887</u>	<u>1,441,578</u>	<u>3,646,465</u>
	<u>The Bank</u>		
	Impairment allowance under IAS 39 (October 31, 2018)	Adjustments	Allowance for expected credit losses under IFRS 9 (November 1, 2018)
Loans and acceptances	2,027,298	974,260	3,001,558
Investment securities	-	62,063	62,063
Deposits with financial institutions	-	45,942	45,942
Customers' liabilities under acceptances	<u>-</u>	<u>32,973</u>	<u>32,973</u>
Total	<u>2,027,298</u>	<u>1,115,238</u>	<u>3,142,536</u>

(d) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies

(a) Basis of preparation

Statement of compliance

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

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

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

(i) IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17, *Leases*, IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, SIC-15, *Operating Leases - Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items 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.

The Group is required to adopt IFRS 16, *Leases* from January 1, 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on November 1, 2019 may change because:

- The Group has not finalised the testing and assessment of controls over its new IT systems; and
- The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.

The actual impact of applying IFRS 16 in the period of initial application will depend on future economic conditions, the Group's assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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

(i) IFRS 16 *Leases* (continued)

The Group will recognise new assets and liabilities for its operating leases of branch and office premises [note 48(b)]. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of \$1,383,866 (Bank: \$1,369,291) as at November 1, 2019.

Transition

The Group plans to apply IFRS 16 initially on November 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at November 1, 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before November 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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

(ii) IFRS 17 *Insurance Contracts* (continued)

The key principles in IFRS 17 are that an entity:

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

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

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

(iii) 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.

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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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

(iii) IFRIC 23 *Uncertainty Over Income Tax Treatments* (continued)

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.

(iv) Amendments to IFRS 9 *Financial Instruments*, effective retrospectively for annual periods beginning on or after January 1, 2019 clarifies the treatment of:

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) if 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.

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 these amendments will have on its 2020 financial statements.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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

- (v) Amendment to IAS 19 *Employee Benefits* is effective for annual reporting periods beginning on or after January 1, 2019, and specifies how a company should determine pension expenses when there are changes to a defined benefit pension plan.

The amendment requires a company to use updated actuarial assumptions to determine its current service cost and net interest for the remaining period when there is an amendment, curtailment or settlement of a defined benefit plan. The effect of the net asset ceiling is disregarded when calculating the gain or loss on the settlement of the defined benefit plan and is dealt with separately in other comprehensive income.

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

- (vi) Annual Improvements to IFRS Standards 2015-2017 cycle contain amendments to IAS 12, *Income Taxes* and is effective for annual periods beginning on or after January 1, 2019.

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently (either in profit or loss, OCI or equity) with the transactions that generated the distributable profits.

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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

- (viii) Amendments to IFRS 3, *Business Combinations*, applicable to businesses acquired in annual reporting periods beginning on or after January 1, 2020, provides more guidance on the definition of a business. The amendments include:
- (i) An election to use a concentration test by way of an assessment that results in an asset acquisition, if substantially all of the fair value of the gross asset is concentrated in single identifiable asset or a group of similar identifiable assets.
 - (ii) Otherwise, the assessment focuses on the existence of a substantive process. A business consists of inputs and processes applied to those inputs to create outputs.

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

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

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

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

(b) Basis of consolidation

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

Subsidiaries are those entities controlled by the 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 "the Group".

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(b) Basis of consolidation (continued)**

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

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

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

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

(c) Segment reporting

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

(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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(e) Revenue recognition***Interest income**Policy applicable from November 1, 2018*

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

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

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

The ‘amortised cost’ of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method, of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before November 1, 2018).

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

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

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

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

Policy applicable before November 1, 2018

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(e) Revenue recognition (continued)***Interest income (continued)**Policy applicable before November 1, 2018 (continued)*

The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discounts on treasury bills, other discounted instruments and amortisation of premiums on instruments bought at a premium.

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.

*Fee and commission income**Policy applicable from November 1, 2018*

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

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

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

Performance obligations and revenue recognition policies:

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Fee and commission income (continued)

Policy applicable from November 1, 2018 (continued)

Performance obligations and revenue recognition policies (continued):

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition under IFRS 15 (applicable from November 1, 2018).
Investment banking services	The Group provides investment banking related services, including execution of customers' transactions and maintenance of customers' investments records. Fees are charged when the transaction takes place and are based on fixed rates or a fixed percentage of the assets value.	Revenue from investment banking related services is recognised at the point in time when the service is provided.
Portfolio and asset management services	The Group provides portfolio and asset management services to customers. Fees are calculated based on a fixed percentage of the value of the assets and are charged at various time intervals based on the investment agreement but at no time period exceeding twelve months.	Revenue from portfolio and asset management services is recognised at the point in time when the service is provided.

Applicable before November 1, 2018

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

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

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

Premium income

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

Dividend income

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(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 over the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

(g) Insurance contracts

Classification

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

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

Recognition and measurement

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

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

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

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as summarised in note 3(j). These liabilities are adjusted through profit or loss to reflect any 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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. 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 37(a)].

(k) Taxation

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

Current income tax

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

Deferred income tax

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities

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

Recognition

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

Classification and measurement, derecognition, and impairment of financial instruments

Applicable from November 1, 2018

Classification and measurement

Classification and measurement of financial assets

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

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

Financial assets include both debt and equity instruments.

Debt instruments

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

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

Classification of debt instruments is determined based on:

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

Business model assessment

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Business model assessment (continued)

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

Contractual cash flow characteristics assessment

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Applicable from November 1, 2018 (continued)**Debt instruments measured at amortised cost*

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

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

Debt instruments measured at FVOCI

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

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Consolidated Statement of Income. The accumulated allowance recognised in OCI is recycled to the Consolidated Statement of Income upon derecognition of the debt instrument.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

These instruments are measured at fair value in the Consolidated Statement of Financial Position, with transaction costs recognised immediately in the Consolidated Statement of Income as part of Non-interest income. Realized and unrealized gains and losses are recognised as part of Non-interest income in the Consolidated Statement of Income.

Debt instruments designated at FVTPL

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

Financial assets designated at FVTPL are recorded in the Consolidated Statement of Financial Position at fair value. Changes in fair value are recognised in Non-interest income in the Consolidated Statement of Income.

Equity instruments

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

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

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in the Consolidated Statement of Income as part of Non-interest income. Subsequent to initial recognition the changes in fair value are recognised as part of Non-interest income in the Consolidated Statement of Income.

Equity instruments measured at FVOCI

At initial recognition, there is an irrevocable option for the Bank to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer term investment purposes.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Equity instruments measured at FVOCI (continued)

This election is made on an instrument-by-instrument basis and is not available to equity instruments that are held for trading purposes.

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

Classification and measurement of financial liabilities

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

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

Financial liabilities measured at FVTPL

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

Financial liabilities measured at amortised cost

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

Financial liabilities designated at FVTPL

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

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

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Financial liabilities designated at FVTPL (continued)

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

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

Financial liabilities designated at FVTPL are recorded in the Consolidated Statement of Financial Position at fair value. Any changes in fair value are recognised in Non-interest income in the Consolidated Statement of Income, except for changes in fair value arising from changes in the Bank's own credit risk which are recognised in the OCI. Changes in fair value due to changes in the Bank's own credit risk are not subsequently reclassified to Consolidated Statement of Income upon derecognition/extinguishment of the liabilities.

Determination of fair value

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Applicable before November 1, 2018*

Derecognition of financial assets and liabilities

Derecognition of financial assets

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

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

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

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

Transfers of financial assets that do not qualify for derecognition are reported as secured financings in the Consolidated Statement of Financial Position.

Derecognition of financial liabilities

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Applicable before November 1, 2018 (continued)**Classification*

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

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.

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

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.

Loans and receivables

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

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

Held-to-maturity

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Applicable before November 1, 2018 (continued)**Available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified in any of the other categories of financial assets. They are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. Available-for-sale investments are measured at fair value except for any unquoted equity securities whose fair value cannot be reliably measured, which are carried at cost. Other unrealised gains and losses arising from changes in fair value of available-for-sale investments are recognised in other comprehensive income. On disposal or impairment of these investments, the unrealised gains or losses included in stockholders' equity are transferred to profit or loss.

Derecognition

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

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

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.

Measurement

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(m) Embedded derivatives

Applicable from November 1, 2018

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

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all 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.

Applicable before November 1, 2018

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.

(n) Cash and cash equivalents

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Expected credit losses

Applicable from November 1, 2018

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

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

Expected credit loss impairment model

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

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

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

Measurement of expected credit loss

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for impairment losses (continued)

Applicable from November 1, 2018 (continued)

Measurement of expected credit loss (continued)

Details of these statistical parameters/inputs are as follows:

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

Forward-looking information

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

Macroeconomic factors

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

Multiple forward-looking scenarios

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for impairment losses (continued)

Applicable from November 1, 2018 (continued)

Multiple forward-looking scenarios (continued)

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

Assessment of significant increase in credit risk (SIR)

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for impairment losses (continued)

Applicable from November 1, 2018 (continued)

Expected life

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

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

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

Modified financial assets

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for impairment losses (continued)

Applicable from November 1, 2018 (continued)

Definition of default

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

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

The Group considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, with the exception of credit card receivables that are treated as defaulted when 180 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

Write-off policy

The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Credit card receivables 180 days past due are written-off. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the Consolidated Statement of Income.

Purchased loans

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(o) Allowance for impairment losses (continued)***Applicable from November 1, 2018 (continued)**Purchased loans (continued)*

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

*Applicable before November 1, 2018**Identification and measurement of impairment*

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for impairment losses (continued)

Applicable before November 1, 2018 (continued)

Identification and measurement of impairment (continued)

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

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

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

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

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

(p) Repurchase and reverse repurchase agreements

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(q) Acceptances and guarantees

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

(r) Property, plant and equipment

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

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

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

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

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

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

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

(s) Investment in subsidiaries

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

(t) 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(u) Employee benefits**

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

Pension obligations

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

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(u) Employee benefits (continued)***Termination benefits*

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

Other post-retirement obligations

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

Equity compensation benefits

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

The amount contributed to the ESOP trust (note 51) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares, is not considered material. Further, the effect of forfeitures is not considered material.

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

Annual leave

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

Defined contribution plan

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(v) Borrowings**

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

(w) Share capital*Classification*

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

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

Share issue costs

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

Dividends

Dividends on ordinary shares and preference shares classified as equity are recognised in stockholder's equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

Dividend payments on preference shares classified as a liability are recognised in the statement of revenue and expenses as interest expense.

(x) Leases*As lessee*

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(x) Leases (continued)***As lessor*

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

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

(y) Impairment of non-financial assets

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

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

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

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

(z) Fiduciary activities

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***4. Critical accounting estimates, and judgements made in applying accounting policies**

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

*Expected credit losses (ECL)**Policy applicable from November 1, 2018*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in notes 24 and 45(b), which also set out key sensitivities of the ECL to changes in these elements.

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

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

Detailed information about the judgements and estimates made by the Group in the above areas is set out in notes 3(o).

Policy applicable before November 1, 2018

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

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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***4. Critical accounting estimates, and judgements made in applying accounting policies (continued)***Valuation of financial instruments*

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

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

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

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

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation, which is outlined in note 3(j).

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

These estimates are more fully described in note 37.

Pension and other post-employment benefits

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***4. Critical accounting estimates, and judgements made in applying accounting policies (continued)***Pension and other post-employment benefits (continued)*

The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation. Past experience has shown that the actual medical costs have increased on average by the rate of inflation. Other key assumptions for the pension and other post-employment benefit cost and credit are based, in part, on current market conditions.

Recognition and measurement of intangible assets

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

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

Income taxes

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

5. Responsibilities of the appointed actuary and external auditors

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary, whose responsibility is to carry out an annual valuation of the Group's insurance policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***6. Segmental financial information**

The Group is organised into five main business segments:

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

	The Group					Group
	2019					
	Retail	Banking Corporate and Commercial	Treasury	Insurance services	Eliminations	
Net external revenues	18,833,060	8,007,098	8,035,495	5,161,300	-	40,036,953
Revenue from other segments	<u>377,698</u>	<u>1,181,670</u>	<u>(1,577,572)</u>	<u>(6,604)</u>	<u>24,808</u>	<u>-</u>
Total revenues	19,210,758	9,188,768	6,457,923	5,154,696	24,808	40,036,953
Total expenses and losses	<u>(15,628,960)</u>	<u>(7,778,226)</u>	<u>(565,924)</u>	<u>(1,191,925)</u>	<u>-</u>	<u>(25,165,035)</u>
Profit before tax	<u>3,581,798</u>	<u>1,410,542</u>	<u>5,891,999</u>	<u>3,962,771</u>	<u>24,808</u>	14,871,918
Taxation						<u>(4,676,644)</u>
Profit for the year						<u>10,195,274</u>
Segment assets	<u>136,534,750</u>	<u>91,298,678</u>	<u>178,939,016</u>	<u>58,530,404</u>	<u>(3,349,045)</u>	461,953,803
Unallocated assets						<u>46,061,983</u>
Total assets						<u>508,015,786</u>
Segment liabilities	<u>171,369,565</u>	<u>173,205,216</u>	<u>-</u>	<u>46,001,589</u>	<u>(2,997,275)</u>	387,579,095
Unallocated liabilities						<u>23,477,997</u>
Total liabilities						<u>411,057,092</u>
Other segment items:						
Capital expenditure	678,606	429,768	-	-	-	1,108,374
Expected credit losses	2,251,332	441,007	<u>(64,372)</u>	<u>(40,734)</u>	-	2,587,233
Depreciation and amortisation	<u>376,070</u>	<u>190,902</u>	<u>-</u>	<u>3,395</u>	<u>-</u>	<u>570,367</u>

Capital expenditure comprises additions to property, plant and equipment (note 28) and intangible assets (note 29).

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

	The Group					
	2018					
	<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	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 28) and intangible assets (note 29).

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***7. Net interest income**

	The Group		The Bank	
	2019	2018	2019	2018
Interest income calculated using the effective interest method:				
Deposits with banks and other financial institutions	1,192,360	1,303,450	1,109,684	1,229,721
Investment securities	4,042,844	5,020,170	1,859,091	2,215,806
Reverse repurchase agreements	13,596	48,126	15,884	59,599
Loans and advances	<u>21,455,424</u>	<u>20,554,826</u>	<u>19,112,758</u>	<u>17,926,825</u>
	<u>26,704,224</u>	<u>26,926,572</u>	<u>22,097,417</u>	<u>21,431,951</u>
Interest expense measured on the effective interest basis:				
Banks and customers	1,419,337	1,752,367	861,135	1,058,097
Repurchase agreements	8,459	-	8,717	245
Policyholders' liabilities	1,322,039	1,400,860	-	-
Other	<u>19,145</u>	<u>19,504</u>	<u>67</u>	<u>7</u>
	<u>2,768,980</u>	<u>3,172,731</u>	<u>869,919</u>	<u>1,058,349</u>
Net interest income	<u>23,935,244</u>	<u>23,753,841</u>	<u>21,227,498</u>	<u>20,373,602</u>

8. Net fee and commission income

	The Group		The Bank	
	2019	2018	2019	2018
Fee and commission income:				
Retail banking fees	6,988,831	6,175,100	6,955,399	6,138,932
Credit related fees	1,356,951	1,295,516	1,343,486	1,247,564
Commercial and depository fees	5,608,442	5,642,062	5,608,442	5,642,062
Insurance related fees	<u>269,014</u>	<u>231,770</u>	<u>-</u>	<u>-</u>
	14,223,238	13,344,448	13,907,327	13,028,558
Fee and commission expenses	<u>(7,928,559)</u>	<u>(6,767,110)</u>	<u>(7,928,559)</u>	<u>(6,767,110)</u>
	<u>6,294,679</u>	<u>6,577,338</u>	<u>5,978,768</u>	<u>6,261,448</u>

9. 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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***10. Insurance revenue**

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
Gross premiums		
Individual life	1,025,948	932,756
Group life	<u>1,803,926</u>	<u>1,353,286</u>
	2,829,874	2,286,042
Reinsurance ceded	(4)	(377)
	2,829,870	2,285,665
Changes in actuarial reserves	<u>472,328</u>	<u>645,962</u>
	<u>3,302,198</u>	<u>2,931,627</u>

11. Other revenue/(expense)

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net gain/(loss) on sale of property, plant and equipment	185,933	(1,878)	185,933	(1,878)
Dividend income	-	-	<u>3,840,631</u>	<u>1,445,585</u>
	<u>185,933</u>	<u>(1,878)</u>	<u>4,026,564</u>	<u>1,443,707</u>

12. Salaries, pension contributions and other staff benefits

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Wages and salaries	9,044,614	8,297,165	8,521,977	7,769,956
Statutory payroll contributions	745,303	748,356	704,029	711,119
Other staff benefits	<u>1,497,671</u>	<u>1,381,989</u>	<u>1,430,721</u>	<u>1,312,190</u>
	<u>11,287,588</u>	<u>10,427,510</u>	<u>10,656,727</u>	<u>9,793,265</u>
Post employment benefits				
Pension credit on defined benefit plan [note 30(a)(v)]	(1,559,843)	(1,445,568)	(1,559,843)	(1,445,568)
Other post-retirement benefits cost [note 30(b)(ii)]	<u>542,989</u>	<u>555,889</u>	<u>542,989</u>	<u>555,889</u>
	<u>(1,016,854)</u>	<u>(889,679)</u>	<u>(1,016,854)</u>	<u>(889,679)</u>
Total (note 13)	<u>10,270,734</u>	<u>9,537,831</u>	<u>9,639,873</u>	<u>8,903,586</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***13. Expenses by nature**

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Salaries, pension contributions and other staff benefits (note 12)	10,270,734	9,537,831	9,639,873	8,903,586
Property expenses, including depreciation	2,056,335	2,073,776	1,987,245	1,992,299
Systems related expenses	1,634,091	1,478,335	1,696,125	1,436,485
Insurance claims and benefits	215,875	191,616	-	-
Transportation and communication	907,116	939,854	877,592	909,843
Marketing and advertising	418,075	445,244	394,580	431,274
Professional, legal and consultancy fees	354,599	504,823	307,060	457,979
Technical and support services	3,937,284	2,716,929	3,788,605	2,572,032
Asset tax	1,067,058	973,116	862,862	769,345
Licensing and fees paid to regulators	114,013	104,651	77,516	68,830
Deposit insurance	466,127	436,148	444,346	414,306
Stationery	357,658	311,140	350,894	303,073
Other operating expenses	<u>778,837</u>	<u>651,892</u>	<u>706,207</u>	<u>616,549</u>
	<u>22,577,802</u>	<u>20,365,355</u>	<u>21,132,905</u>	<u>18,875,601</u>

14. 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Auditors' remuneration	37,054	33,496	26,220	23,653
Depreciation of property, plant and equipment	546,239	563,073	543,510	558,406
Amortisation of intangible assets	24,128	25,805	22,127	23,804
Directors' emoluments:				
Fees	9,191	4,809	1,773	1,478
Management remuneration	59,657	58,235	59,657	58,235
Operating lease rentals	<u>359,912</u>	<u>373,550</u>	<u>310,807</u>	<u>325,114</u>

15. Taxation**(a) Taxation charge**

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current income tax:				
Income tax at 33 $\frac{1}{3}$ %	3,193,418	3,366,149	3,193,418	3,366,149
Income tax at 30%	522,179	455,918	-	-
Income tax at 25%	945,012	1,057,072	-	-
Adjustment for over provision of prior year's charge	(3,953)	(5,275)	(3,953)	(5,671)
	4,656,656	4,873,864	3,189,465	3,360,478
Deferred income tax [note 36(a)]	<u>19,988</u>	<u>103,507</u>	<u>89,612</u>	<u>92,573</u>
	<u>4,676,644</u>	<u>4,977,371</u>	<u>3,279,077</u>	<u>3,453,051</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***15. Taxation (continued)**

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

	The Group		The Bank	
	2019	2018	2019	2018
Profit before taxation	<u>14,871,918</u>	<u>15,540,938</u>	<u>13,211,196</u>	<u>11,613,100</u>
Tax calculated at 33 $\frac{1}{3}$ %	4,957,306	5,180,313	4,403,732	3,871,033
Adjusted for the tax effects of:				
Different tax regimes applicable to life insurance and mortgage financing subsidiaries	(427,948)	(262,709)	-	-
Interest/dividend from tax free investments	(4,729)	(19,055)	(1,284,939)	(500,917)
Expenses not deductible for tax purposes	344,811	278,312	290,513	257,750
Prior year over provision	(3,953)	(5,275)	(3,953)	(5,671)
Other charges and allowances	(188,843)	(194,215)	(126,276)	(169,144)
Taxation expense	<u>4,676,644</u>	<u>4,977,371</u>	<u>3,279,077</u>	<u>3,453,051</u>
Effective tax rate	<u>31.45%</u>	<u>32.03%</u>	<u>24.82%</u>	<u>29.73%</u>

16. 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	
	2019	2018
Profit for the year attributable to stockholders	<u>10,195,274</u>	<u>10,563,567</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>3.48</u>	<u>3.61</u>

17. Cash and balances at Bank of Jamaica

	The Group		The Bank	
	2019	2018	2019	2018
Statutory reserves with Bank of Jamaica				
– non interest-bearing (note 18)	31,929,861	37,885,689	31,811,321	37,756,363
Cash in hand and at bank	<u>38,114,477</u>	<u>31,139,940</u>	<u>36,047,536</u>	<u>25,347,994</u>
	<u>70,044,338</u>	<u>69,025,629</u>	<u>67,858,857</u>	<u>63,104,357</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

17. 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Banking Services Act, 2014, Section 43	BNSJ	7%	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.

18. Cash and cash equivalents

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash resources	120,643,860	109,598,887	118,458,379	103,677,615
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 17)	(31,929,861)	(37,885,689)	(31,811,321)	(37,756,363)
Cheques and other instruments in transit	(2,096,168)	(2,213,198)	(2,343,813)	(2,461,911)
Expected credit losses	15,558	-	15,485	-
Accrued interest	(15,764)	(38,697)	(15,300)	(29,883)
	86,617,625	69,461,303	84,303,430	63,429,458
Add other cash equivalent balances:				
Repurchase agreement less than ninety days (note 21)	<u>600,000</u>	<u>300,000</u>	<u>600,000</u>	<u>300,000</u>
Cash and cash equivalents	<u>87,217,625</u>	<u>69,761,303</u>	<u>84,903,430</u>	<u>63,729,458</u>
Cash and cash equivalent is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	38,130,035	31,139,940	36,063,021	25,347,994
Government and bank notes other than Jamaican	1,431,305	898,300	1,431,305	898,300
Amounts due from other banks	32,216,896	16,772,219	32,216,896	16,772,219
Accounts with parent and fellow subsidiaries	16,951,321	22,902,739	16,951,321	22,902,739
Repurchase agreements	600,000	300,000	600,000	300,000
Accrued interest	(15,764)	(38,697)	(15,300)	(29,883)
	89,313,793	71,974,501	87,247,243	66,191,369
Less: Cheques and other instruments in transit	(2,096,168)	(2,213,198)	(2,343,813)	(2,461,911)
	<u>87,217,625</u>	<u>69,761,303</u>	<u>84,903,430</u>	<u>63,729,458</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***19. Due from other banks**

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Items in course of collection from other banks	449,885	349,952	449,885	349,952
Placements with other banks	<u>31,767,011</u>	<u>16,422,267</u>	<u>31,767,011</u>	<u>16,422,267</u>
	<u>32,216,896</u>	<u>16,772,219</u>	<u>32,216,896</u>	<u>16,772,219</u>

20. Accounts with parent and fellow subsidiaries

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

21. Government securities purchased under resale agreements

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Reverse repurchase agreements	600,000	300,000	600,000	300,000
Interest receivable	<u>518</u>	<u>473</u>	<u>518</u>	<u>473</u>
	<u>600,518</u>	<u>300,473</u>	<u>600,518</u>	<u>300,473</u>

Included in Government securities purchased under resale agreements are securities with an original maturity less than ninety days, amounting to \$600,000 (2018: \$300,000) for the Group and the Bank, which are regarded as cash equivalents for the purposes of the statement of cash flows (see note 18).

The fair value of collateral held pursuant to reverse repurchase agreements is \$630,818 (2018: \$315,068) for the Group and the Bank.

22. 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Securities with regulators, clearing house and other financial institutions	<u>1,666,966</u>	<u>1,554,672</u>	<u>1,666,966</u>	<u>1,554,672</u>

Included in pledged assets are:

- (a) Government issued securities held as available-for-sale, amounting to \$1,666,966 (2018: \$1,554,672) for the Group and 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***23. Loans, net of allowance for credit losses**

	The Group		The Bank	
	2019	2018	2019	2018
Business and Government	82,817,333	72,430,744	82,817,333	72,430,744
Personal and credit cards	88,523,414	77,969,606	87,331,692	76,614,286
Residential mortgages	37,245,924	33,309,094	11,604,005	5,022,895
Interest receivable	1,097,721	1,020,944	847,761	784,151
Total	209,684,392	184,730,388	182,600,791	154,852,076
Allowance for impairment losses (note 24)	(4,138,436)	(2,204,887)	(3,715,672)	(2,027,298)
	205,545,956	182,525,501	178,885,119	152,824,778

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

	The Group		The Bank	
	2019	2018	2019	2018
Neither past due nor impaired	192,132,731	170,508,146	168,213,211	144,172,264
Past due but not impaired				
Past due 1-30 days	7,465,391	6,608,328	5,816,582	4,898,992
Past due 31-60 days	4,023,020	2,053,945	3,763,552	1,616,278
Past due 61-90 days	1,250,537	861,830	1,043,968	680,161
	12,738,948	9,524,103	10,624,102	7,195,431
Impaired:				
Past due more than 90 days	3,714,994	3,677,195	2,915,717	2,700,230
Interest receivable	1,097,719	1,020,944	847,761	784,151
Gross loan portfolio	209,684,392	184,730,388	182,600,791	154,852,076
Allowance for impairment losses	(4,138,436)	(2,204,887)	(3,715,672)	(2,027,298)
	205,545,956	182,525,501	178,885,119	152,824,778

(ii) Repossessed collateral:

In the normal course of business, the security documentation which governs the collateral charged 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.

24. Expected credit losses on loans

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

Some of the key drivers include the following:

- Changes in risk ratings of the borrower or instrument reflecting changes in their credit quality;
- Changes in the volumes of transactions;

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***24. Expected credit losses on loans (continued)**

Some of the key drivers include the following (continued):

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

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

	<u>The Group</u>	<u>The Bank</u>
Allowance at October 31, 2018	2,204,887	2,027,298
Adjustment on initial application of IFRS 9	<u>1,217,679</u>	<u>974,260</u>
Allowance as at November 1, 2018	<u>3,422,566</u>	<u>3,001,558</u>

	<u>The Group</u>				<u>2018</u> <u>Total</u>
	Stage 1	Stage 2	Stage 3	Total	
Allowance at beginning of year	1,041,780	695,330	1,685,456	3,422,566	2,311,650
Provided during the year	322,948	480,880	2,599,211	3,403,039	3,189,420
Bad debts written off	-	-	(2,691,315)	(2,691,315)	(3,296,183)
Foreign exchange movement	(388,659)	594,181	(201,376)	4,146	-
Transfer to/(from) stages					
Stage 1	676,166	(664,701)	(11,465)	-	-
Stage 2	(262,470)	532,301	(269,831)	-	-
Stage 3	(10,525)	(326,361)	336,886	-	-
Allowance at end of year (note 23)	<u>1,379,240</u>	<u>1,311,630</u>	<u>1,447,566</u>	<u>4,138,436</u>	<u>2,204,887</u>
Provided during the year	322,948	480,880	2,599,211	3,403,039	3,189,420
Recoveries of bad debts	-	-	(716,454)	(716,454)	(1,285,029)
Expected credit losses reported in profit for the year	<u>322,948</u>	<u>480,880</u>	<u>1,882,757</u>	<u>2,686,585</u>	<u>1,904,391</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***24. Expected credit losses on loans (continued)**

	The Bank				2018 Total
	2019				
	Stage 1	Stage 2	Stage 3	Total	
Allowance at beginning of year	988,221	594,177	1,419,160	3,001,558	2,044,434
Provided during the year	322,948	480,880	2,595,409	3,399,237	3,126,678
Bad debts written off	-	-	(2,689,269)	(2,689,269)	(3,143,814)
Foreign exchange movement	(388,659)	594,181	(201,376)	4,146	-
Transfer to/(from) stages					
Stage 1	688,729	(646,977)	(41,752)	-	-
Stage 2	(285,592)	437,646	(152,054)	-	-
Stage 3	(10,530)	(313,150)	323,680	-	-
Allowance at end of year (note 23)	<u>1,315,117</u>	<u>1,146,757</u>	<u>1,253,798</u>	<u>3,715,672</u>	<u>2,027,298</u>
Provided during the year	322,948	480,880	2,595,409	3,399,237	3,126,678
Recoveries of bad debts	-	-	(714,053)	(714,053)	(1,260,929)
Expected credit losses reported in profit for the year	<u>322,948</u>	<u>480,880</u>	<u>1,881,356</u>	<u>2,685,184</u>	<u>1,865,749</u>

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

	The Group		The Bank	
	2019	2018	2019	2018
Allowance for expected credit losses/impairment based on IFRS – [see (a) below]	4,138,436	2,204,887	3,715,672	2,027,298
Additional allowance based on BOJ regulations [see (b) below]	<u>2,293,023</u>	<u>2,366,809</u>	<u>1,952,792</u>	<u>1,701,284</u>
	<u>6,431,459</u>	<u>4,571,696</u>	<u>5,668,464</u>	<u>3,728,582</u>

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

(b) This represents the additional allowance to meet the Bank of Jamaica loan loss provisioning requirements. A non-distributable loan loss reserve was established to represent the excess of the provision required by BOJ over IFRS 9 requirements (note 45).

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 \$1,038,713 (2018: \$1,360,229) for the Group and \$835,124 (2018: \$1,172,935) for the Bank. The total allowance for loan losses is made up as follows:

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***25. Financial assets at fair value through profit or loss**

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Government of Jamaica securities	2,326,467	-	698,313	-
Unit trusts	<u>342,748</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2,669,215	-	698,313	-
Accrued interest	<u>7,863</u>	<u>-</u>	<u>7,863</u>	<u>-</u>
	<u>2,677,078</u>	<u>-</u>	<u>706,176</u>	<u>-</u>

26. Investment securities

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Fair value through other comprehensive income [2018:Available-for-sale (AFS)]				
Government securities	111,468,015	111,098,017	60,732,048	60,437,486
Treasury Bills	1,382,487	4,780,294	1,382,487	4,780,294
Corporate bonds	2,543,846	12,751,796	2,543,846	12,751,796
Unit trust shares	-	298,740	-	-
Unquoted equities	5,105	5,105	5,105	5,105
Interest receivable	<u>668,800</u>	<u>855,693</u>	<u>266,470</u>	<u>369,008</u>
	<u>116,068,253</u>	<u>129,789,645</u>	<u>64,929,956</u>	<u>78,343,689</u>

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of \$90,000 (2018: \$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 fair value through other comprehensive income during the year.

27. Sundry assets

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Accounts receivable	369,579	152,428	369,579	152,339
Deferred charges	1,074,301	1,090,357	1,065,394	1,081,045
Other	<u>553,646</u>	<u>500,075</u>	<u>551,191</u>	<u>499,252</u>
	<u>1,997,526</u>	<u>1,742,860</u>	<u>1,986,164</u>	<u>1,732,636</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Property, plant and equipment**

	The Group				Total
	Freehold land and buildings	Leasehold improvements	Furniture, fixtures, motor vehicles & equipment	Capital work-in- progress	
Cost					
October 31, 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	4,354,289	465,532	7,094,879	255,799	12,170,499
Additions	12,854	891	128,393	966,236	1,108,374
Disposals	-	(39,671)	(8,641)	-	(48,312)
Transfers	<u>89,846</u>	<u>64,337</u>	<u>257,818</u>	<u>(412,001)</u>	<u>-</u>
October 31, 2019	<u>4,456,989</u>	<u>491,089</u>	<u>7,472,449</u>	<u>810,034</u>	<u>13,230,561</u>
Depreciation					
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	936,388	432,099	5,511,406	-	6,879,893
Charge for the year	93,415	20,066	432,758	-	546,239
Disposals	<u>-</u>	<u>-</u>	<u>(8,641)</u>	<u>-</u>	<u>(8,641)</u>
October 31, 2019	<u>1,029,803</u>	<u>452,165</u>	<u>5,935,523</u>	<u>-</u>	<u>7,417,491</u>
Net book values					
October 31, 2019	<u>3,427,186</u>	<u>38,924</u>	<u>1,536,926</u>	<u>810,034</u>	<u>5,813,070</u>
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>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Property, plant and equipment (continued)**

	The Bank				Total
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in Progress	
Cost					
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	4,322,852	457,286	6,992,751	255,063	12,027,952
Additions	12,854	891	127,857	966,236	1,107,838
Disposals	-	(39,671)	(8,641)	-	(48,312)
Transfers	<u>89,846</u>	<u>64,337</u>	<u>257,818</u>	<u>(412,001)</u>	<u>-</u>
October 31, 2019	<u>4,425,552</u>	<u>482,843</u>	<u>7,369,785</u>	<u>809,298</u>	<u>13,087,478</u>
Accumulated depreciation					
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	923,797	424,443	5,415,398	-	6,763,638
Charge for the year	93,415	20,066	430,029	-	543,510
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>(8,641)</u>	<u>-</u>	<u>(8,641)</u>
October 31, 2019	<u>1,017,212</u>	<u>444,509</u>	<u>5,836,786</u>	<u>-</u>	<u>7,298,507</u>
Net book values					
October 31, 2019	<u>3,408,340</u>	<u>38,334</u>	<u>1,532,999</u>	<u>809,298</u>	<u>5,788,971</u>
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>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

29. Intangible assets	<u>Computer Software</u>	
	<u>The Group</u>	<u>The Bank</u>
Cost		
October 31, 2017	195,577	107,761
Additions	<u>14,767</u>	<u>14,767</u>
October 31, 2018 and 2019	<u>210,344</u>	<u>122,528</u>
Amortisation		
October 31, 2017	53,071	49,070
Amortisation for the year	<u>25,805</u>	<u>23,804</u>
October 31, 2018	78,876	72,874
Amortisation for the year	<u>24,128</u>	<u>22,127</u>
October 31, 2019	<u>103,004</u>	<u>95,001</u>
Net book values		
October 31, 2019	<u>107,340</u>	<u>27,527</u>
October 31, 2018	<u>131,468</u>	<u>49,654</u>
October 31, 2017	<u>142,506</u>	<u>58,691</u>

30. 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>2019</u>	<u>2018</u>
Defined benefits pension plan	43,704,650	34,517,087
Other post retirement benefits	<u>(4,646,759)</u>	<u>(4,727,215)</u>
	<u>39,057,891</u>	<u>29,789,872</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***30. 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>2019</u>	<u>2018</u>
Present value of funded obligations (iii)	(38,055,078)	(36,033,524)
Fair value of plan assets (iv)	<u>81,759,728</u>	<u>70,550,611</u>
Asset in the statement of financial position	<u>43,704,650</u>	<u>34,517,087</u>

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

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	34,517,087	25,020,925
Contributions paid	500	500
Pension income recognised in profit or loss (v)	1,559,843	1,445,568
Remeasurement recognised in other comprehensive Income (vi)	<u>7,627,220</u>	<u>8,050,094</u>
Balance at end of year	<u>43,704,650</u>	<u>34,517,087</u>

(iii) Movement in the present value of obligation

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	(36,033,524)	(31,928,705)
Current service costs	(898,563)	(734,271)
Interest cost	(2,652,894)	(2,811,469)
Employees' contributions	(584,491)	(526,537)
Benefits paid	1,413,413	1,359,907
Actuarial gains arising from:		
Experience adjustments	32,503	421,132
Changes in demographic assumptions	(374,728)	812,919
Changes in financial assumptions	<u>1,043,206</u>	<u>(2,626,500)</u>
Balance at end of year	<u>(38,055,078)</u>	<u>(36,033,524)</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***30. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan (continued)

	<u>The Group and the Bank</u>	
	<u>2019</u>	<u>2018</u>
(iv) Movement in fair value of pension plan assets		
Fair value of plan assets at beginning of year	70,550,611	60,654,296
Contributions	584,991	527,037
Benefits paid	(1,413,413)	(1,359,907)
Interest income on plan assets	5,256,301	5,418,788
Administrative fees	(145,001)	(94,060)
Remeasurement gain on plan assets included in other comprehensive income:	<u>6,926,239</u>	<u>5,404,457</u>
Fair value of plan assets at end of year	<u>81,759,728</u>	<u>70,550,611</u>
Plan assets consist of the following:		
Government stocks and bonds	43,741,086	42,592,204
Quoted equities	30,247,495	23,441,002
Reverse repurchase agreements	234,745	509,908
Certificates of deposit	2,759,757	220,290
Real estate	3,173,561	3,562,971
Net current assets	<u>1,603,084</u>	<u>224,236</u>
	<u>81,759,728</u>	<u>70,550,611</u>
(v) Components of defined benefit income recognised in statement of revenue and expenses		
	<u>2019</u>	<u>2018</u>
Current service costs	898,563	734,271
Interest cost on obligation	2,652,894	2,811,469
Interest income on plan assets	(5,256,301)	(5,418,788)
Interest on effect of asset ceiling	-	333,420
Administrative fees	<u>145,001</u>	<u>94,060</u>
	<u>(1,559,843)</u>	<u>(1,445,568)</u>
(vi) Components of defined benefit income recognised in other comprehensive income		
	<u>2019</u>	<u>2018</u>
Remeasurement of defined benefit obligations	(700,981)	1,392,449
Remeasurement of plan assets	(6,926,239)	(5,404,457)
Change in effect on asset ceiling	<u>-</u>	<u>(4,038,086)</u>
	<u>(7,627,220)</u>	<u>(8,050,094)</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***30. Retirement benefits asset/obligation (continued)**

(a) Defined benefits pension plan (continued)

(vii) Sensitivity analysis on projected benefits obligation

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

	<u>The Group and the Bank</u>			
	<u>2019</u>		<u>2018</u>	
	1 % <u>Increase</u>	1 % <u>Decrease</u>	1 % <u>Increase</u>	1 % <u>Decrease</u>
Discount rate	(5,279,000)	6,771,000	(5,134,000)	6,601,000
Future pension increases	4,377,000	(3,613,000)	4,221,000	(2,659,000)
Future salary increases	<u>1,415,000</u>	<u>(1,267,000)</u>	<u>1,458,000</u>	<u>(1,305,000)</u>

(viii) Liability duration

The average liability duration was as follows:

	<u>The Group and the Bank</u>	
	<u>2019</u>	<u>2018</u>
Active members and all participants (years)	<u>16.0</u>	<u>16.6</u>

(ix) The estimated pension contributions expected to be paid into the defined benefit and contribution plans during the next financial year is \$500 (2018: \$500).

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

	<u>The Group and the Bank</u>	
	<u>2019</u>	<u>2018</u>
Discount rate	6.50%	7.50%
Future salary increases	5.00%	6.50%
Future pension increases	<u>2.25%</u>	<u>3.50%</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***30. 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>2019</u>	<u>2018</u>
Balance at beginning of year	(4,727,215)	(3,884,186)
Current service costs	(192,670)	(211,193)
Interest cost	(350,319)	(344,696)
Benefits paid	113,866	126,069
Actuarial gains/(losses) arising from:		
Experience adjustments	65,690	77,624
Changes in financial assumptions	318,825	(758,912)
Demographic assumptions	<u>125,064</u>	<u>268,079</u>
Balance at end of year	<u>(4,646,759)</u>	<u>(4,727,215)</u>

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

	<u>2019</u>	<u>2018</u>
Current service costs	192,670	211,193
Interest on obligation	<u>350,319</u>	<u>344,696</u>
	<u>542,989</u>	<u>555,889</u>

(iii) (Credit)/charge recognised in other comprehensive income

	<u>2019</u>	<u>2018</u>
Experience adjustments	(65,690)	(77,624)
Changes in financial and demographic assumptions	<u>(443,889)</u>	<u>490,833</u>
Remeasurement (gain)/loss on obligation	<u>(509,579)</u>	<u>413,209</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 4.50% (2018: 6.0%) per year.

(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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***30. 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:

	<u>The Group and The Bank</u>			
	<u>2019</u>		<u>2018</u>	
	1 % <u>Increase</u>	1 % <u>Decrease</u>	1 % <u>Increase</u>	1 % <u>Decrease</u>
Discount rate	(703,000)	909,000	(736,000)	953,000
Health inflation rate	803,000	(634,000)	861,000	(678,000)
Salary increase rate	<u>17,000</u>	<u>(15,000)</u>	<u>15,000</u>	<u>(13,000)</u>

(vi) Liability duration

The average liability duration is as follows:

	<u>The Group and The Bank</u>	
	<u>2019</u>	<u>2018</u>
Active members and all participants	<u>17.6</u>	<u>18.3</u>

31. Deposits by the public

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Personal	161,808,073	149,616,835	153,967,548	141,200,014
Business	151,089,922	138,235,687	150,553,185	137,746,051
Interest payable	<u>70,152</u>	<u>95,857</u>	<u>17,514</u>	<u>30,353</u>
	<u>312,968,147</u>	<u>287,948,379</u>	<u>304,538,247</u>	<u>278,976,418</u>

Deposits include \$709,156 (2018: \$830,932) held as collateral for irrevocable commitments under letters of credit.

32. Due to other banks and financial institutions

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

33. Due to parent and ultimate parent company

	<u>The Group and The Bank</u>	
	<u>2019</u>	<u>2018</u>
The Bank of Nova Scotia:		
Facility I	598,109	1,101,989
Facility II	<u>1,368,579</u>	<u>1,765,080</u>
	1,966,688	2,867,069
Interest payable	<u>24,939</u>	<u>36,197</u>
	1,991,627	2,903,266
Deposits held with the Bank:		
Scotia Group Jamaica Limited	2,843,923	4,228,234
The Bank of Nova Scotia	<u>22,575</u>	<u>407,734</u>
	<u>4,858,125</u>	<u>7,539,234</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.

34. Due to fellow subsidiaries

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

35. Other liabilities

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Accrued staff benefits	2,646,871	2,169,932	2,527,901	2,033,514
Provisions	405,662	320,974	389,579	316,875
Prepaid letters of credit	32,929	695,383	32,929	695,383
Accrued liabilities	<u>2,831,524</u>	<u>2,567,521</u>	<u>2,751,240</u>	<u>2,422,635</u>
	<u>5,916,986</u>	<u>5,753,810</u>	<u>5,701,649</u>	<u>5,468,407</u>

36. Deferred tax assets and liabilities

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting 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; and
- 33 $\frac{1}{3}$ % for The Bank of Nova Scotia Jamaica Limited.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***36. Deferred tax assets and liabilities (continued)**

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

	The Group		The Bank	
	2019	2018	2019	2018
Balance as at November 1	(10,778,908)	(7,797,703)	(9,851,607)	(7,360,397)
Cumulative effect of adopting IFRS 9	413,172	-	319,265	-
Balances at beginning of year	(10,365,736)	(7,797,703)	(9,532,342)	(7,360,397)
Recognised in profit [note 15(a)]	(19,988)	(103,507)	(89,612)	(92,573)
Recognised in other comprehensive income:				
Re-measurement of retirement benefits assets/obligations	(2,712,266)	(2,545,628)	(2,712,266)	(2,545,628)
Available-for-sale investments:				
- fair value remeasurement	(168,097)	(226,076)	(252,125)	195,944
- transfer to profit	192,554	(105,994)	53,346	(48,953)
	(2,707,797)	(2,877,698)	(2,911,045)	(2,398,637)
Net deferred tax liability	(13,073,533)	(10,778,908)	(12,532,999)	(9,851,607)

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

	The Group		The Bank	
	2019	2018	2019	2018
Retirement benefits asset	(14,570,028)	(11,507,560)	(14,570,028)	(11,507,560)
Other retirement benefits obligations	1,549,339	1,576,172	1,549,339	1,576,172
Available-for-sale investments	(540,742)	(572,366)	(129,435)	71,926
Vacation accrued	136,686	132,567	127,656	124,935
Accelerated tax depreciation	(33,124)	(66,233)	(34,303)	(66,709)
Impairment losses on loans	458,538	(215,050)	497,393	(50,371)
Interest receivable	(100,644)	(126,438)	-	-
Other	26,442	-	26,379	-
Net deferred tax liability	(13,073,533)	(10,778,908)	(12,532,999)	(9,851,607)

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

	The Group		The Bank	
	2019	2018	2019	2018
Accelerated tax depreciation	(33,129)	(39,023)	(32,406)	(38,236)
Pension and other post retirement benefits	377,035	338,583	377,035	338,583
Allowance for loan impairment	(304,209)	(170,431)	(252,316)	(198,424)
Vacation accrued	(4,118)	(8,969)	(2,721)	(9,350)
Interest receivable	(25,794)	(16,653)	-	-
Other ECLs	10,203	-	20	-
Total (note 15)	19,988	103,507	89,612	92,573

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***37. Policyholders' liabilities**

(a) Composition of policyholders' liabilities

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
Insurance risk reserve - Individual life	(8,906,602)	(8,055,034)
- Individual accident and sickness	452,653	357,126
- Whole life	99,088	80,752
- Group life	<u>844,542</u>	<u>580,711</u>
	(7,510,319)	(7,036,445)
Policyholders' fund	51,802,107	51,594,637
Benefits and claims payable	233,934	181,629
Unprocessed premiums	21,506	12,639
Annuity fund	<u>592,815</u>	<u>539,869</u>
	<u>45,140,043</u>	<u>45,292,329</u>

(b) Movement in policyholders' liabilities

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
Policyholders fund:		
At beginning of year	51,594,637	50,861,291
Gross premiums	4,886,323	5,111,179
Disbursements	(6,000,892)	(5,779,629)
Interest credited	<u>1,322,039</u>	<u>1,401,796</u>
At end of year	<u>51,802,107</u>	<u>51,594,637</u>
Benefits and claims payable:		
At beginning of year	181,629	188,801
Claims charged during the year	268,180	184,444
Benefits and claims paid	(215,875)	(191,616)
At end of year	<u>233,934</u>	<u>181,629</u>
Unprocessed premiums:		
At beginning of year	12,639	14,902
Premiums received	7,854,752	7,536,105
Premiums applied	(7,845,885)	(7,538,368)
At end of year	<u>21,506</u>	<u>12,639</u>
Annuity fund:		
At beginning of year	539,869	493,549
Issue of new annuities	72,574	62,483
Payments	(38,706)	(35,660)
Interest credited	<u>19,078</u>	<u>19,497</u>
At end of year	<u>592,815</u>	<u>539,869</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***37. Policyholders' liabilities (continued)**

(b) Movement in policyholders' liabilities (continued)

	<u>The Group</u>		
	<u>2019</u>		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(7,617,156)	580,711	(7,036,445)
Changes in assumptions and fees	(372,760)	621	(372,139)
Normal changes	(364,949)	<u>263,214</u>	<u>(101,735)</u>
At end of year	<u>(8,354,865)</u>	<u>844,546</u>	<u>(7,510,319)</u>
	<u>2018</u>		
	<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>

38. Share capital

Authorised:

	<u>Number of Units ('000)</u>	
	<u>2019</u>	<u>2018</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:

	<u>Number of Units ('000)</u>		<u>Carrying value</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Ordinary stock units	<u>2,927,232</u>	<u>2,927,232</u>	<u>2,927,232</u>	<u>2,927,232</u>

39. 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, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

40. 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.

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

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

42. Capital reserve

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</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>

43. 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 24).

44. 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.

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 33. No impairment losses have been recognised in respect of loans made to related parties.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Related party transactions and balances (continued)**

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

	The Group					
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	Total	
					2019	2018
Loans						
Balance at October 31	-	-	491,498	8,087,576	8,579,074	7,285,347
Interest earned	-	-	32,636	582,819	615,455	758,061
Deposit liabilities						
Balance at October 31	4,858,125	7,140,185	271,298	4,249,910	16,519,518	17,475,059
Interest expense	-	235,280	289	8,444	244,013	484,946
Investments/Repurchase agreements						
Interest received on repurchase agreements	-	-	-	-	-	28,355
Other investments	-	342,748	-	179,727	522,475	539,394
Interest earned on other investments	-	44,593	-	11,077	55,670	17,697
Deposits with Banks						
Due from banks and other financial institutions	323,937	16,627,384	-	-	16,951,321	22,902,738
Interest earned from banks and other financial institutions	148	400,740	-	-	400,888	410,565
Other						
Fees and commission (paid)/earned	-	(562,172)	459	13	(561,700)	(2,999)
Insurance products	-	-	13,494	-	13,494	11,002
Technical service fees (paid)/received	(2,164,730)	53,740	-	-	(2,110,990)	(1,479,659)
Other operating (expense) /income	(1,199,006)	(2,193,704)	-	(9,291)	(3,402,001)	(3,850,118)

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Related party transactions and balances (continued)

	The Bank					
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	Total	
					2019	2018
Loans						
Balance at October 31	-	-	383,132	8,042,270	8,425,402	7,131,694
Interest income earned	-	-	23,283	581,076	604,359	743,652
Deposit liabilities						
Balance at October 31	4,858,125	7,925,921	240,280	4,234,015	17,258,341	15,332,725
Interest expense	-	43,414	145	8,428	51,987	239,777
Investments/Repurchase agreements						
Interest received on repurchase agreements	-	2,546	-	-	2,546	14,289
Other investments	-	-	-	179,727	179,727	196,793
Interest earned on other investments	-	-	-	11,077	11,077	16,309
Deposit assets						
Due from banks and other financial institutions	323,937	16,627,384	-	-	16,951,321	22,902,738
Interest earned from banks and other financial institutions	148	400,740	-	-	400,888	410,565
Due (to)/from fellow subsidiaries	-	(884)	-	-	(884)	615
Other						
Fees and commission earned	-	-	452	6	458	481
Technical service fees (paid)/received	(2,058,969)	103,426	-	-	(1,955,543)	(1,334,762)
Other operating (expense)/income	<u>(1,199,006)</u>	<u>1,985,090</u>	<u>-</u>	<u>(9,291)</u>	<u>776,793</u>	<u>(748,850)</u>

	The Group		The Bank	
	2019	2018	2019	2018
Key management compensation				
Salaries and other short term benefits	654,371	769,539	562,622	641,833
Post-employment benefits	<u>(163,224)</u>	<u>(197,611)</u>	<u>(163,224)</u>	<u>(197,611)</u>

45. 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

45. Financial risk management

(a) Overview and risk management framework (continued)

- 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.

(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 BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

45. Financial risk management (continued)

(a) Overview and risk management framework (continued)

(iii) Asset and Liability Committee (continued)

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 3(o).

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, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

45. 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>IG Code</u>	<u>External rating : Standard & Poor's equivalent</u>
Investment grade	AAA to BBB-
Non-investment grade	BB+ to B-
Watch list	CCC+ to CC
Default	Default

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. 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:

	<u>The Group</u>	
	<u>Loans and credit commitments</u>	
	<u>2019</u> (%)	<u>2018</u> (%)
Excellent	21.4	23.9
Very Good	1.1	2.2
Good	25.7	25.4
Acceptable	13.3	14.2
Higher Risk	<u>38.5</u>	<u>34.3</u>
	<u>100.0</u>	<u>100.0</u>

	<u>The Bank</u>	
	<u>Loans and credit commitments</u>	
	<u>2019</u> (%)	<u>2018</u> (%)
Excellent	17.5	18.1
Very Good	1.3	2.6
Good	23.5	23.1
Acceptable	15.1	16.9
Higher Risk	<u>42.6</u>	<u>39.3</u>
	<u>100.0</u>	<u>100.0</u>

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

Retail loans including all credit card segments:

Category of PD Grade	<u>The Group</u>			
	<u>2019</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Very Low	1,822,997	-	-	1,822,997
Low	45,659,555	75,196	-	45,734,751
Medium	49,823,086	394,577	-	50,217,663
High	17,284,054	3,663,147	-	20,947,201
Very High	<u>12,987</u>	<u>2,918,975</u>	-	<u>2,931,962</u>
Subtotal: PD Grades (Advanced Models)	<u>114,602,679</u>	<u>7,051,895</u>	-	<u>121,654,574</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)****Retail loans including all credit card segments (continued):**

Category of PD Grade	The Group			
	2019			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans not graded (intermediate or simplified or gross-up)	3,148,381	212,406	-	3,360,787
Default	-	-	<u>3,056,557</u>	<u>3,056,557</u>
Total	117,751,060	7,264,301	3,056,557	128,071,918
Expected credit losses retail (including all credit card segments)	<u>(1,146,936)</u>	<u>(1,135,683)</u>	<u>(1,243,905)</u>	<u>(3,526,524)</u>
Carrying amount	<u>116,604,124</u>	<u>6,128,618</u>	<u>1,812,652</u>	<u>124,545,394</u>

Commercial loans excluding all credit card segments:

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)****Retail loans including all credit card segments (continued):**

Category of PD Grade	The Bank			
	2019			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Very Low	1,948,176	-	-	1,948,176
Low	23,345,186	50,015	-	23,395,201
Medium	48,392,646	380,617	-	48,773,263
High	17,177,464	2,307,628	-	19,485,092
Very High	<u>12,987</u>	<u>2,270,336</u>	<u>-</u>	<u>2,283,323</u>
Subtotal: PD Grades (Advanced Models)	<u>90,876,459</u>	<u>5,008,596</u>	<u>-</u>	<u>95,885,055</u>
Loans not graded (intermediate or simplified or gross-up)	2,571,284	274,700	-	2,845,984
Default	<u>-</u>	<u>-</u>	<u>2,257,280</u>	<u>2,257,280</u>
Total	93,447,743	5,283,296	2,257,280	100,988,319
Expected credit losses	<u>(1,082,815)</u>	<u>(970,811)</u>	<u>(1,050,136)</u>	<u>(3,103,762)</u>
Carrying amount	<u>92,364,928</u>	<u>4,312,485</u>	<u>1,207,144</u>	<u>97,884,557</u>

Commercial loans excluding all credit card segments:

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)**

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:

	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	%	%	%	%
Standard	84.4	92.0	83.1	91.5
Special Mention	13.8	6.0	15.2	6.8
Sub-Standard	1.1	0.9	1.1	0.6
Doubtful	0.4	0.3	0.4	0.3
Loss	<u>0.3</u>	<u>0.8</u>	<u>0.2</u>	<u>0.8</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(b) Credit risk (continued)**

(iii) Credit quality (continued)

Debt securities (continued):

	The Group		
	2019		2018
	Stage 1	Total	
AAA to AA+	29,146,021	29,146,021	31,147,796
AA to A+	1,444,424	1,444,424	5,277,396
A to A-	-	-	3,067,519
BBB+ to BB+	-	-	1,280,924
BB to B-	94,090,515	94,090,515	114,101,178
Lower than B-	-	-	-
Unrated	<u>935,572</u>	<u>935,572</u>	<u>1,261,694</u>
Allowance	<u>125,616,532</u>	<u>125,616,532</u>	<u>156,136,507</u>

	The Bank		
	2019		2018
	Stage 1	Total	
AAA to AA+	29,146,021	29,146,021	31,147,796
AA to A+	1,444,424	1,444,424	5,277,396
A to A-	-	-	3,067,519
BBB+ to BB+	-	-	1,280,924
BB to B-	39,257,123	39,257,123	57,462,058
Lower than B-	-	-	-
Unrated	<u>935,572</u>	<u>935,572</u>	<u>1,261,694</u>
Allowance	<u>70,783,140</u>	<u>70,783,140</u>	<u>99,497,387</u>

Classified as follows:

	The Group		The Bank	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Amortised cost				
(2018: Held-to-maturity)	5,552,088	25,396,077	3,485,147	19,604,131
Fair value through OCI				
(2018: Available-for-sale)	116,063,148	129,185,758	64,924,851	78,338,584
Fair value through profit or loss	2,334,330	-	706,176	-
Fair value through OCI				
(2018: Available-for-sale)	<u>1,666,966</u>	<u>1,554,672</u>	<u>1,666,966</u>	<u>1,554,672</u>
	<u>125,616,532</u>	<u>156,136,507</u>	<u>70,783,140</u>	<u>99,497,387</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

45. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Maximum exposure to credit risk

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

Collateral and other credit enhancements held against loans

It is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of 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 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 \$140,521,509 (2018: \$136,933,411) for the Group and \$113,393,305 (2018: \$107,057,347) 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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. 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 Group			
	<u>Loans</u>	Acceptances, guarantees and letters of credit	<u>Total 2019</u>	<u>Total 2018</u>
Agriculture, fishing and mining	989,169	13,757	1,002,926	1,412,243
Construction and real estate	6,056,846	251,979	6,308,825	5,528,160
Distribution	18,513,252	53,234	18,566,486	16,461,090
Financial institutions	7,453,805	1,856,516	9,310,321	7,194,542
Government and public entities	11,683,273	112,839	11,796,112	12,971,886
Manufacturing	10,640,956	-	10,640,956	8,193,756
Transportation, electricity, water and other	13,798,883	1,645,856	15,444,739	9,361,288
Personal	125,929,023	1,196,010	127,125,033	112,204,484
Professional and other services	9,545,826	1,994,670	11,540,496	8,791,512
Tourism and entertainment	3,975,638	4,591	3,980,229	10,045,701
Interest receivable	<u>1,097,721</u>	<u>-</u>	<u>1,097,721</u>	<u>1,020,944</u>
Total	<u>209,684,392</u>	<u>7,129,452</u>	216,813,844	193,185,606
Expected credit losses			(4,178,101)	(2,204,887)
			<u>212,635,743</u>	<u>190,980,719</u>

	The Bank			
	<u>Loans</u>	Acceptances, guarantees and letters of credit	<u>Total 2019</u>	<u>Total 2018</u>
Agriculture, fishing and mining	989,169	13,757	1,002,926	1,412,243
Construction and real estate	6,056,846	251,979	6,308,825	5,528,160
Distribution	18,513,252	53,234	18,566,486	16,461,090
Financial institutions	7,578,985	1,856,516	9,435,501	7,337,925
Government and public entities	11,683,273	112,839	11,796,112	12,971,886
Manufacturing	10,640,956	-	10,640,956	8,193,756
Transportation, electricity, water and other	13,798,883	1,645,856	15,444,739	9,361,288
Personal	98,970,203	1,067,300	100,037,503	82,234,948
Professional and other services	9,545,826	1,994,670	11,540,496	8,791,512
Tourism and entertainment	3,975,635	4,591	3,980,226	10,045,701
Interest receivable	<u>847,763</u>	<u>-</u>	<u>847,763</u>	<u>784,151</u>
Total	<u>182,600,791</u>	<u>7,000,742</u>	189,601,533	163,122,660
Expected credit losses			(3,753,851)	(2,027,298)
			<u>185,847,682</u>	<u>161,095,362</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(b) Credit risk (continued)****(v) Concentration of exposure to credit risk (continued)****(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	
	2019	2018	2019	2018
Government of Jamaica	117,845,462	118,104,489	64,736,263	66,957,273
Bank of Jamaica	36,529,387	63,281,723	34,343,834	57,360,494
Financial institutions	49,768,735	39,975,431	49,768,735	39,975,430
Corporate and other	2,561,730	12,935,983	2,561,730	12,935,983
	<u>206,705,314</u>	<u>234,297,626</u>	<u>151,410,562</u>	<u>177,229,180</u>

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

(c) Market risk

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

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

The 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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

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						
	2019						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	43,813,354	22,477,937	-	-	-	54,352,569	120,643,860
Securities purchased under resale agreements	-	600,000	-	-	-	518	600,518
Pledged assets	-	1,666,966	-	-	-	-	1,666,966
Loans (2)	73,843,892	24,264,296	23,638,691	79,630,991	2,799,564	1,368,522	205,545,956
Government securities purchased under resale agreement	-	-	-	2,334,330	-	342,748	2,677,078
Investment securities (3)	-	66,832,549	13,085,386	25,537,207	10,073,519	539,592	116,068,253
Other assets	-	-	-	-	-	60,813,155	60,813,155
Total assets	117,657,246	115,841,748	36,724,077	107,502,528	12,873,083	117,417,104	508,015,786
Deposits by the public	311,509,625	10,906,993	7,736,436	1,941,398	-	-	332,094,452
Other liabilities	-	-	-	-	-	33,822,597	33,822,597
Policyholders' liabilities	40,032,119	2,779,382	9,838,860	-	-	(7,510,318)	45,140,043
Stockholders' equity	-	-	-	-	-	96,958,694	96,958,694
Total liabilities and stockholders' equity	351,541,744	13,686,375	17,575,296	1,941,398	-	123,270,973	508,015,786
Total interest rate sensitivity gap	(233,884,498)	102,155,373	19,148,781	105,561,130	12,873,083	(5,853,869)	-
Cumulative gap	(233,884,498)	(131,729,125)	(112,580,344)	(7,019,214)	5,853,869	-	-
	2018						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Total assets	81,289,607	150,795,681	37,786,497	87,415,062	13,426,956	105,338,375	476,052,178
Total liabilities and stockholders' equity	318,451,958	16,182,494	19,935,928	5,277,269	-	116,204,529	476,052,178
Total interest rate sensitivity gap	(237,162,351)	134,613,187	17,850,569	82,137,793	13,426,956	(10,866,154)	-
Cumulative gap	(237,162,351)	(102,549,164)	(84,698,595)	(2,560,802)	10,866,154	-	-

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

	The Bank						
	2019						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	43,694,669	20,411,389	-	-	-	54,352,321	118,458,379
Securities purchased under resale agreements	-	600,000	-	-	-	518	600,518
Pledged assets	-	1,666,966	-	-	-	-	1,666,966
Loans (2)	53,098,134	22,497,687	20,201,958	79,067,694	2,783,941	1,235,705	178,885,119
Government securities purchased under resale agreements	-	-	-	706,176	-	-	706,176
Investment securities (3) subsidiaries	-	40,547,275	13,085,386	11,129,702	23,357	364,236	65,149,956
Other assets	-	-	-	-	-	58,813,519	58,813,519
Total assets	96,792,803	85,723,317	33,287,344	90,903,572	2,807,298	114,766,299	424,280,633
Deposits by the public	305,429,636	7,045,099	5,685,324	860,844	-	-	319,020,903
Other liabilities	-	-	-	-	-	32,822,555	32,822,555
Stockholders' equity	-	-	-	-	-	72,437,175	72,437,175
Total liabilities and stockholders' equity	305,429,636	7,045,099	5,685,324	860,844	-	105,259,730	424,280,633
Total interest rate sensitivity gap	(208,636,833)	78,678,218	27,602,020	90,042,728	2,807,298	7,552,815	
Cumulative gap	(208,636,833)	(129,958,615)	(102,356,595)	(12,313,867)	(9,506,569)	-	

	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
Total assets	59,735,579	115,514,405	25,004,959	78,065,964	7,280,749	101,976,493	387,578,149
Total liabilities and stockholders' equity	272,004,120	7,388,745	7,168,907	4,232,046	-	96,784,331	387,578,149
Total interest rate and sensitivity gap	(212,268,541)	108,125,660	17,836,052	73,833,918	7,280,749	5,192,162	
Cumulative gap	(212,268,541)	(104,142,881)	(86,306,829)	(12,472,911)	(5,192,162)	-	

(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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. 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					
	2019					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted Average %
ASSETS						
Cash resources	0.50	1.36	-	-	-	0.78
Securities purchased under resale agreements	-	1.40	-	-	-	1.40
Financial assets at fair value through profit or loss	-	2.10	2.36	4.54	5.43	2.96
Pledged assets	-	1.88	-	-	-	1.88
Loans (1)	14.45	13.63	9.93	9.72	7.60	11.89
Investment securities (2)	-	2.10	2.36	4.54	5.43	2.96
LIABILITIES:						
Deposits (3)	0.27	1.66	1.99	3.08	-	0.37
Policyholders' liabilities	<u>2.46</u>	<u>2.95</u>	<u>2.56</u>	<u>-</u>	<u>-</u>	<u>2.50</u>
	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>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

	The Bank					
	2019					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	0.50	1.38	-	-	-	0.77
Securities purchased under resale agreements	-	1.40	-	-	-	1.40
Pledged assets	-	1.88	-	-	-	1.88
Financial assets at fair value through profit or loss	-	2.11	2.36	2.59	2.14	2.25
Loans (1)	17.23	13.79	10.02	9.74	7.58	12.49
Investment securities (2)	-	2.11	2.36	2.59	2.14	2.25
LIABILITIES						
Deposits (3)	<u>0.18</u>	<u>0.60</u>	<u>1.34</u>	<u>5.30</u>	<u>-</u>	<u>0.23</u>
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>

(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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. 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 2018.

	2019		2018	
	The Group		The Bank	
	2019	2018	2019	2018
JMD Interest rates	Increase/decrease by 225bps		Increase/decrease by 450bps	
USD Interest rates	Increase/decrease by 225bps		Increase/decrease by 125bps	
Effect on profit	2,768,829	3,259,128	2,242,974	2,438,761
Effect on Stockholders' equity	<u>10,094,846</u>	<u>12,631,241</u>	<u>9,982,039</u>	<u>12,279,557</u>

(ii) Currency risk

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

The tables below summarise the exposure to relevant currencies:

JMD Equivalent	The Group						
	2019						
	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	51,548,472	58,903,553	3,711,399	5,536,975	667,293	276,168	120,643,860
Government securities purchased under resale agreements	600,518	-	-	-	-	-	600,518
Pledged assets	1,666,966	-	-	-	-	-	1,666,966
Loans	179,369,360	26,176,700	(110)	3	3	-	205,545,956
Financial assets at FVTPL	2,677,078	-	-	-	-	-	2,677,078
Investments	85,363,091	30,705,162	-	-	-	-	116,068,253
Other assets	<u>57,968,596</u>	<u>2,734,399</u>	<u>46</u>	<u>(36)</u>	<u>110,150</u>	<u>-</u>	<u>60,813,155</u>
	<u>379,194,081</u>	<u>118,519,814</u>	<u>3,711,335</u>	<u>5,536,942</u>	<u>777,446</u>	<u>276,168</u>	<u>508,015,786</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

	The Group						
	2019						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	206,517,291	115,993,794	3,598,107	5,241,506	743,424	330	332,094,452
Other liabilities	30,060,047	3,295,628	97,395	66,494	112,906	190,127	33,822,597
Policyholders' liabilities	<u>45,140,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,140,043</u>
	<u>281,717,381</u>	<u>119,289,422</u>	<u>3,695,502</u>	<u>5,308,000</u>	<u>856,330</u>	<u>190,457</u>	<u>411,057,092</u>
NET POSITION	<u>97,476,700</u>	<u>(769,608)</u>	<u>15,833</u>	<u>228,942</u>	<u>(78,884)</u>	<u>85,711</u>	<u>96,958,694</u>
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>
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
Policyholders' 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>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

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

The following significant exchange rates were applied during the year:

	<u>Average rate for the period</u>		<u>Reporting date spot rate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
USD	131.9916	128.3980	138.9420	127.9971
CAD	98.5815	99.6417	103.3703	97.4996
GBP	166.5244	171.8235	176.2299	162.2372
EUR	<u>145.7749</u>	<u>150.2552</u>	<u>152.1042</u>	<u>144.4428</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 2018. 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.

	<u>2019</u>		<u>2018</u>	
	<u>Increase/decrease</u>		<u>Increase/decrease</u>	
USD	by 8.25%		by 8.75%	
CAD	by 4.50%		by 9.00%	
GBP	by 2.95%		by 8.25%	
EUR	by 4.00%		by 9.00%	
	<u>The Group</u>		<u>The Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Effect on profit and stockholders' equity	<u>275,700</u>	<u>296,574</u>	<u>275,700</u>	<u>296,574</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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(d) Liquidity risk (continued)****Sensitivity to foreign exchange rate movements (continued)**

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.

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				Total	Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	315,326,025	8,105,284	3,951,465	5,392,905	332,775,679	332,094,452
Policyholders' liabilities	42,041,730	10,130,857	-	-	52,172,587	45,140,043
Other liabilities	<u>5,009,695</u>	<u>2,214,724</u>	<u>160,693</u>	<u>1,840,508</u>	<u>9,225,620</u>	<u>9,225,620</u>
Total liabilities	<u>362,377,450</u>	<u>20,450,865</u>	<u>4,112,158</u>	<u>7,233,413</u>	<u>394,173,886</u>	<u>386,460,115</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(d) Liquidity risk (continued)**

Financial liabilities cash flows (continued)

	2018					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	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	5,351,894	2,146,716	1,059,635	2,110,171		10,668,416	10,668,416
Total liabilities	336,624,314	23,284,651	5,715,374	8,033,215		373,657,554	363,479,620

	The Bank 2019					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	311,997,622	6,153,246	908,045	-		319,058,913	319,020,903
Other liabilities	5,128,630	2,214,724	160,693	1,840,508		9,344,555	9,344,555
Total liabilities	317,126,252	8,367,970	1,068,738	1,840,508		328,403,468	328,365,458

	2018					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	281,613,297	7,579,690	1,652,248	-		290,845,235	290,793,818
Other liabilities	5,415,973	2,146,716	1,059,635	2,110,171		10,732,495	10,732,495
Total liabilities	287,029,270	9,726,406	2,711,883	2,110,171		301,577,730	301,526,313

(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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(e) Insurance risk (continued)**

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.

(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.

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.

	The Group			
	Total benefits assured			
	2019		2018	
	Before and after reinsurance	%	Before and after reinsurance	%
(i) Individual Life				
Benefits assured per life				
0 to 250,000	4,650,571	8	4,983,984	9
250,001 to 500,000	3,276,466	5	3,459,954	6
500,001 to 750,000	4,831,723	8	3,030,947	6
750,001 to 1,000,000	3,842,734	6	3,589,734	6
1,000,001 to 1,500,000	11,538,396	19	10,816,438	19
1,500,001 to 2,000,000	7,439,759	12	6,851,797	12
Over 2,000,000	<u>25,876,992</u>	<u>42</u>	<u>23,756,314</u>	<u>42</u>
Total	<u>61,456,641</u>	<u>100</u>	<u>56,489,168</u>	<u>100</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(e) Insurance risk (continued)****(i) Long-term insurance contracts (continued)****(1) Frequency and severity of claims (continued)**

	The Group			
	Total benefits assured			
	2019		2018	
	Before and after reinsurance	%	Before and after reinsurance	%
(ii) Group Life				
Benefits assured per life				
0 to 250,000	11,249,210	11	10,963,492	13
250,001 to 500,000	4,489,216	4	4,507,078	5
500,001 to 750,000	7,966,961	8	5,725,865	7
750,001 to 1,000,000	6,225,170	6	4,738,948	6
1,000,001 to 1,500,000	22,245,282	21	15,862,573	18
1,500,001 to 2,000,000	15,296,232	14	13,213,842	15
Over 2,000,000	<u>37,498,338</u>	<u>36</u>	<u>31,452,790</u>	<u>36</u>
Total	<u>104,970,409</u>	<u>100</u>	<u>86,464,588</u>	<u>100</u>

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

(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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(e) Insurance risk (continued)****(i) Long-term insurance contracts (continued)****(3) Process used in deriving assumptions (continued)**

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

(ii) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour its obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group 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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. 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
- mortality and morbidity
- lapse and withdrawals
- premium persistency

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

	<u>2019</u>	<u>2018</u>
Interest rates increase by 1%	49,960	25,269
Interest rates decrease by 1%	1,634	25,055
Mortality increases by 10%	453,165	496,742
Mortality decreases by 10%	(471,754)	(513,746)
Expenses increase by 10%	452,613	514,898
Expenses decrease by 10%	(448,942)	(509,248)
Lapses and withdrawals increase by 10%	382,366	331,011
Lapses and withdrawals decrease by 10%	(413,889)	(357,962)
Morbidity increase by 10%	126,398	-
Morbidity decrease by 10%	(127,649)	-
Premium persistency increase by 10%	(13,406)	-
Premium persistency decrease by 10%	<u>13,353</u>	<u>-</u>

46. 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, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

46. 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 recognised at cost less impairment.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***46. 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							
	2019							
	Carrying amount			Fair value				
Amortised Cost	Fair value through OCI	Fair value through profit and loss	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value								
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
Government securities	-	112,118,931	2,334,330	114,453,261	-	114,453,261	-	114,453,261
Treasury Bills	-	1,382,487	-	1,382,487	-	1,382,487	-	1,382,487
Corporate bonds	-	2,561,730	-	2,561,730	-	2,561,730	-	2,561,730
Unitised funds	-	-	342,748	342,748	-	342,748	-	342,748
	-	<u>116,068,253</u>	<u>2,677,078</u>	<u>118,745,331</u>	-	<u>118,740,226</u>	<u>5,105</u>	<u>118,745,331</u>
Pledged assets measured at fair value								
Government securities	-	<u>1,666,966</u>	-	<u>1,666,966</u>	-	<u>1,666,966</u>	-	<u>1,666,966</u>
Financial assets not measured at fair value								
Loans and receivables	<u>69,289,475</u>	-	-	<u>69,289,475</u>	-	-	<u>72,156,422</u>	<u>72,156,422</u>
The Group								
2018								
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	-	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, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***46. Fair value of financial instruments (continued)**

Accounting classifications and fair values (continued)

	The Bank							
	2019							
	Carrying amount			Fair value				
Amortised cost	Fair value through OCI	Fair value through profit and loss	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value								
Government securities	-	60,980,634	706,176	61,686,810	-	61,686,810	-	61,686,810
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
Treasury bills	-	1,382,487	-	1,382,487	-	1,382,487	-	1,382,487
Corporate bonds	-	2,561,730	-	2,561,730	-	2,561,730	-	2,561,730
	-	<u>64,929,956</u>	<u>706,176</u>	<u>65,636,132</u>	-	<u>65,631,027</u>	<u>5,105</u>	<u>65,636,132</u>
Pledged assets measured at fair value:								
Government securities	-	<u>1,666,966</u>	-	<u>1,666,966</u>	-	<u>1,666,966</u>	-	<u>1,666,966</u>
Financial assets not measured at fair value								
Loans and receivables	<u>66,367,531</u>	-	-	<u>66,367,531</u>	-	-	<u>69,012,917</u>	<u>69,012,917</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	-	<u>12,827,792</u>	<u>12,827,792</u>	-	<u>12,827,792</u>	-	<u>12,827,792</u>
	-	<u>78,343,689</u>	<u>78,343,689</u>	-	<u>78,338,584</u>	<u>5,105</u>	<u>78,343,689</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>58,302,955</u>	-	<u>58,302,955</u>	-	-	<u>60,650,650</u>	<u>60,650,650</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.

47. 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

47. Capital risk management (continued)

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.

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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***47. Capital risk management (continued)****Banking and Mortgage lending (continued)**

	Regulated by BOJ			
	The Scotia Jamaica Building Society		The Bank	
	2019	2018	2019	2018
Tier 1 Capital	5,250,000	5,250,000	47,931,662	39,909,535
Tier 2 Capital	-	129,755	-	1,550,172
Total regulatory capital	5,250,000	5,379,755	47,931,662	41,459,707
Less prescribed deductions	-	-	(220,000)	(220,000)
	<u>5,250,000</u>	<u>5,379,755</u>	<u>47,711,662</u>	<u>41,239,707</u>
Risk weighted assets				
On-balance sheet	13,533,509	14,967,344	253,065,667	216,390,660
Off balance sheet	127,224	184,635	43,766,527	26,958,854
Foreign exchange exposure	-	-	542,049	587,741
Total risk weighted assets	<u>13,660,733</u>	<u>15,151,979</u>	<u>297,374,243</u>	<u>243,937,255</u>
Actual regulatory capital to risk weighted assets	38.43%	35.5%	16.04%	16.90%
Regulatory requirement	10.00%	10.0%	10.00%	10.00%

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:

	2019	2018
Regulatory capital held	<u>6,753,810</u>	<u>9,978,945</u>
Minimum regulatory capital	<u>1,468,172</u>	<u>1,419,469</u>
Minimum Continuing Capital and Surplus Requirement Ratio	<u>460%</u>	<u>703%</u>

48. Commitments

	The Group		The Bank	
	2019	2018	2019	2018
(a) Capital expenditure authorised and contracted	<u>288,352</u>	<u>20,306</u>	<u>288,352</u>	<u>20,306</u>
(b) Commitments to extend credit:				
Originated term to maturity of more than one year	<u>43,941,527</u>	<u>28,247,570</u>	<u>43,941,527</u>	<u>28,062,935</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Commitments (continued)

(c) Operating lease commitments:

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

	<u>The Group and the Bank</u>	
	<u>2019</u>	<u>2018</u>
Up to one year	133,512	122,896
One to five years	542,929	523,123
Over five years	<u>1,571,109</u>	<u>1,621,684</u>
	<u>2,247,550</u>	<u>2,267,703</u>

49. 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.

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.

50. Dividends

(a) Paid

The Bank paid dividends of \$2.70 per share amounting to \$7,903,526 on January 18, 2019, April 25, 2019, July 24, 2019 and October 23, 2019, as follows:

	<u>The Group and the Bank</u>	
	<u>2019</u>	<u>2018</u>
In respect of 2017	-	1,258,710
In respect of 2018	1,405,071	2,517,419
In respect of 2019	<u>6,498,455</u>	<u>-</u>
	<u>7,903,526</u>	<u>3,776,129</u>

(b) Proposed

At the Board of Directors meeting on December 6, 2019, a dividend in respect of 2019 of \$0.51 per share (2018: \$0.48 per share) amounting to \$1,492,888 was proposed. (2018: \$1,405,071).

51. 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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***51. Employee Share Ownership Plan (continued)**

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 \$41,650 (2018: \$39,853).

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>2019</u>	<u>2018</u>
Number of shares	<u>1,087,268</u>	<u>1,066,513</u>
Fair value of shares	<u>59,745</u>	<u>57,293</u>

52. 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 \$13,114,814 (2018: \$10,670,342).