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INDEPENDENT AUDITORS' REPORT

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the 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 111, which comprise the Group's and the Bank's statements of financial position as at October 31, 2020, 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, 2020, 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 International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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 of 'KPMG' in blue ink, written in a cursive style.

Chartered Accountants
Kingston, Jamaica

December 11, 2020

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Revenue and Expenses
Year ended October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Net interest income and other revenue			
Net interest income, calculated using the effective interest method			
Interest from loans and deposits with banks		23,032,604	22,647,784
Interest from securities		<u>3,444,978</u>	<u>4,056,440</u>
Total interest income	7	26,477,582	26,704,224
Interest expense	7	<u>(2,424,060)</u>	<u>(2,768,980)</u>
Net interest income		24,053,522	23,935,244
Expected credit losses		<u>(5,866,138)</u>	<u>(2,587,233)</u>
Net interest income after impairment losses on loans		<u>18,187,384</u>	<u>21,348,011</u>
Other revenue			
Fee and commission income	8	13,624,361	14,223,238
Fee and commission expense	8	<u>(8,397,042)</u>	<u>(7,928,559)</u>
Net fee and commission income		5,227,319	6,294,679
Net gains on foreign currency activities	9	6,205,565	5,583,741
Insurance revenue	10	3,009,412	3,302,198
Other revenue	11	1,192,718	185,933
Net gains on financial assets		<u>740,783</u>	<u>735,158</u>
		<u>16,375,797</u>	<u>16,101,709</u>
		<u>34,563,181</u>	<u>37,449,720</u>
Expenses			
Salaries, pension contributions and other staff benefits	12	9,921,922	10,270,734
Property expenses, including depreciation		2,385,089	2,056,335
Asset tax		1,128,921	1,067,056
Other operating expenses		<u>9,904,416</u>	<u>9,183,677</u>
	13	<u>23,340,348</u>	<u>22,577,802</u>
Profit before taxation	14	11,222,833	14,871,918
Taxation	15	<u>(3,861,625)</u>	<u>(4,676,644)</u>
Profit for the year		<u>7,361,208</u>	<u>10,195,274</u>
Earnings per stock unit (expressed in \$)	16	<u>2.51</u>	<u>3.48</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Profit for the year		<u>7,361,208</u>	<u>10,195,274</u>
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of retirement benefits plan	30(a)(vi)(b)(ii)	(16,843,301)	8,136,799
Taxation	36	<u>5,614,435</u>	<u>(2,712,266)</u>
		<u>(11,228,866)</u>	<u>5,424,533</u>
Items that are or may be reclassified to profit or loss:			
Unrealised gains on investment securities		816,035	186,121
Realised gains on investment securities transferred to profit		(773,676)	(677,158)
Expected credit loss adjustment on investment securities		<u>(53,606)</u>	<u>(74,216)</u>
		<u>(11,247)</u>	<u>(565,253)</u>
Taxation	36	<u>(7,023)</u>	<u>24,457</u>
		<u>(18,270)</u>	<u>(540,796)</u>
Other comprehensive (loss)/income, net of tax		<u>(11,247,136)</u>	<u>4,883,737</u>
Total comprehensive (loss)/income		<u>(3,885,928)</u>	<u>15,079,011</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*


	Notes	2020	2019
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	17	68,528,049	70,044,338
Government and bank notes other than Jamaican	18	1,634,969	1,431,305
Due from other banks	19	40,516,191	32,216,896
Accounts with parent and fellow subsidiaries	20	<u>19,005,987</u>	<u>16,951,321</u>
		<u>129,685,196</u>	<u>120,643,860</u>
Government securities purchased under resale agreements	21	<u>3,801,093</u>	<u>600,518</u>
Pledged assets	22	<u>1,830,371</u>	<u>1,666,966</u>
Loans, net of allowance for credit losses	23	<u>220,675,498</u>	<u>205,545,956</u>
Financial assets at fair value through profit or loss	25	<u>2,672,017</u>	<u>2,677,078</u>
Investment securities	26	<u>108,910,117</u>	<u>116,068,253</u>
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		7,090,948	7,089,788
Taxation recoverable		1,957,872	2,100,781
Sundry assets	27	2,278,635	1,997,526
Property, plant and equipment	28	8,377,273	5,813,070
Intangible assets	29	84,085	107,340
Retirement benefits asset	30	<u>28,242,497</u>	<u>43,704,650</u>
		<u>48,031,310</u>	<u>60,813,155</u>
		<u>515,605,602</u>	<u>508,015,786</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
LIABILITIES			
Deposits by the public	31	336,660,438	312,968,147
Due to other banks and financial institutions	32	3,567,722	7,127,995
Due to parent and ultimate parent company	33	4,873,664	4,858,125
Due to fellow subsidiaries	34	<u>5,270,465</u>	<u>7,140,185</u>
		<u>350,372,289</u>	<u>332,094,452</u>
Other liabilities			
Cheques and other instruments in transit		1,774,136	2,096,168
Acceptances, guarantees and letters of credit		7,128,245	7,129,452
Other liabilities	35	8,571,887	5,916,986
Taxation payable		647,079	959,699
Deferred tax liabilities	36	7,037,112	13,073,533
Retirement benefits obligations	30	<u>4,541,887</u>	<u>4,646,759</u>
		<u>29,700,346</u>	<u>33,822,597</u>
Policyholders' liabilities	37	<u>45,299,616</u>	<u>45,140,043</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	47,052,091
Cumulative remeasurement gains from investment securities	41	965,459	983,729
Capital reserve	42	9,383	9,383
Loan loss reserve	43	209,757	2,293,023
Unappropriated profits		<u>35,909,563</u>	<u>40,533,370</u>
		<u>90,233,351</u>	<u>96,958,694</u>
		<u>515,605,602</u>	<u>508,015,786</u>

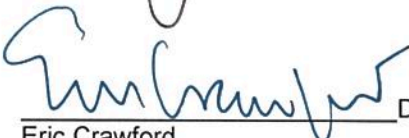
The financial statements on pages 5 to 111 were approved for issue by the Board of Directors and signed on its behalf on December 9, 2020 by:



Jeffrey Hall Director



David Noel Director



Eric Crawford Director



Richard Fraser Secretary

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

**Consolidated Statement of Changes in Stockholders' Equity
Year ended October 31, 2020**

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	<u>Notes</u>	<u>Share capital</u>	<u>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>
Adjusted balances at November 1, 2018		2,927,232	3,159,866	39,052,091	1,524,525	9,383	2,366,809	40,743,303	89,783,209
Profit for the year		-	-	-	-	-	-	10,195,274	10,195,274
Other comprehensive income:									
Remeasurement of retirement benefits plans 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		2,927,232	3,159,866	47,052,091	983,729	9,383	2,293,023	40,533,370	96,958,694
Profit for the year		-	-	-	-	-	-	7,361,208	7,361,208
Other comprehensive (loss)/income:									
Remeasurement of retirement benefits plans net of taxes		-	-	-	-	-	-	(11,228,866)	(11,228,866)
Unrealised gains on investment securities, net of taxes and provisions		-	-	-	521,557	-	-	-	521,557
Realised gains on investment securities, net of taxes		-	-	-	(539,827)	-	-	-	(539,827)
Total other comprehensive loss		-	-	-	(18,270)	-	-	(11,228,866)	(11,247,136)
Total comprehensive loss		-	-	-	(18,270)	-	-	(3,867,658)	(3,885,928)
Transfer from loan loss reserve		-	-	-	-	-	(2,083,266)	2,083,266	-
Dividends paid	50	-	-	-	-	-	-	(2,839,415)	(2,839,415)
Net movement for the year		-	-	-	-	-	(2,083,266)	(756,149)	(2,839,415)
Balances at October 31, 2020		2,927,232	3,159,866	47,052,091	965,459	9,383	209,757	35,909,563	90,233,351

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Consolidated Statement of Cash Flows**
Year ended October 31, 2020*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Cash flows from operating activities			
Profit for the year		7,361,208	10,195,274
Adjustments for:			
Taxation charge	15	3,861,625	4,676,644
Depreciation	28	759,456	546,239
Amortisation of right of use of asset	28	153,865	-
Amortisation of intangible assets	29	23,255	24,128
Expected credit losses		6,491,310	3,403,039
Gain on sale of property, plant and equipment	11	(3,083)	(185,933)
Increase in retirement benefits plans	12	(1,378,799)	(1,016,854)
Gain on extinguishment of liability	11	(1,177,215)	-
		16,091,622	17,642,537
Interest income	7	(26,477,582)	(26,704,224)
Interest expense	7	<u>2,424,060</u>	<u>2,768,980</u>
		(7,961,900)	(6,292,707)
Changes in operating assets and liabilities			
Loans		(20,345,760)	(27,665,796)
Deposits by the public		24,900,787	25,045,477
Policyholders' liabilities		159,573	(152,286)
Sundry assets, net		(281,107)	(254,670)
Other liabilities, net		1,547,938	163,178
Due to parent company and fellow subsidiaries		(1,840,098)	(729,979)
Accounts with parent and fellow subsidiaries		(3,217,256)	(4,818,403)
Taxation recoverable		142,909	44,980
Due to other banks and financial institutions		(3,554,123)	309,901
Statutory reserves at Bank of Jamaica		3,250,342	5,955,744
Guarantees and acceptances (net)		420	118
Retirement benefits plans		(107,219)	(114,366)
		(7,305,494)	(8,508,809)
Interest received		25,036,255	26,828,943
Interest paid		(2,476,421)	(2,818,802)
Taxation paid		(4,598,760)	(4,298,548)
Net cash provided by operating activities		<u>10,655,580</u>	<u>11,202,784</u>
Cash flows from investing activities			
Investment securities		7,337,689	10,333,302
Pledged assets		(164,577)	(111,871)
Proceeds of sale of property, plant and equipment		3,455	225,604
Lease payments (net)	35(d)	(165,620)	-
Purchase of property, plant and equipment	28	(2,232,894)	(1,108,374)
Net cash provided in investing activities		<u>4,778,053</u>	<u>9,338,661</u>
Net cash flows from operating and investing activities (carried forward to page 11)		<u>15,433,633</u>	<u>20,541,445</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Cash flows from operating and investing activities (brought forward from page 10)		<u>15,433,633</u>	<u>20,541,445</u>
Cash flows from financing activity			
Dividends paid	50	(<u>2,839,415</u>)	(<u>7,903,526</u>)
Net cash outflow from financing activities		(<u>2,839,415</u>)	(<u>7,903,526</u>)
Effect of exchange rate changes on cash and cash equivalents		<u>3,217,256</u>	<u>4,818,403</u>
Net increase in cash and cash equivalents		15,811,474	17,456,322
Cash and cash equivalents at beginning of year		<u>87,217,625</u>	<u>69,761,303</u>
Cash and cash equivalents at end of year	18	<u>103,029,099</u>	<u>87,217,625</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Net interest income and other revenue			
Net interest income, calculated using the effective interest method			
Interest from loans and deposits with banks		20,960,579	20,222,442
Income from securities		<u>1,450,308</u>	<u>1,874,975</u>
Total interest income	7	22,410,887	22,097,417
Interest expense	7	(867,737)	(869,919)
Net interest income		21,543,150	21,227,498
Expected credit losses		<u>(5,797,784)</u>	<u>(2,625,897)</u>
Net interest income after impairment losses on loans		<u>15,745,366</u>	<u>18,601,601</u>
Other income			
Fee and commission income	8	13,319,363	13,907,327
Fee and commission expense	8	(8,397,042)	(7,928,559)
Net fee and commission income		4,922,321	5,978,768
Net gains on foreign currency activities	9	6,196,828	5,583,758
Other revenue	11	1,707,102	4,026,564
Net gains on financial assets		<u>496,870</u>	<u>153,410</u>
		<u>13,323,121</u>	<u>15,742,500</u>
		<u>29,068,487</u>	<u>34,344,101</u>
Expenses			
Salaries, pension contributions and other staff benefits	12	9,295,195	9,639,873
Property expenses, including depreciation		2,313,249	1,987,245
Asset tax		935,131	862,862
Other operating expenses		<u>9,121,501</u>	<u>8,642,925</u>
	13	<u>21,665,076</u>	<u>21,132,905</u>
Profit before taxation	14	7,403,411	13,211,196
Taxation	15	<u>(2,324,285)</u>	<u>(3,279,077)</u>
Profit for the year		<u>5,079,126</u>	<u>9,932,119</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Profit for the year		<u>5,079,126</u>	<u>9,932,119</u>
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefits plans	30(a)(vi)(b)(ii)	(16,843,301)	8,136,799
Taxation	36	<u>5,614,435</u>	<u>(2,712,266)</u>
		<u>(11,228,866)</u>	<u>5,424,533</u>
Items that are or may be reclassified to profit or loss			
Unrealised gains on investment securities		604,269	581,146
Realised gains on investment securities transferred to profit		(485,339)	(160,780)
Expected credit loss adjustments on investment securities		<u>(23,226)</u>	<u>(33,472)</u>
		95,704	386,894
Taxation	36	<u>(33,761)</u>	<u>(198,779)</u>
		<u>61,943</u>	<u>188,115</u>
Other comprehensive (loss)/income, net of tax		<u>(11,166,923)</u>	<u>5,612,648</u>
Total comprehensive (loss)/income		<u>(6,087,797)</u>	<u>15,544,767</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

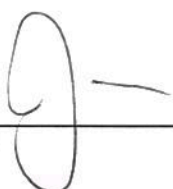
	Notes	2020	2019
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	17	64,145,022	67,858,857
Government and bank notes other than Jamaican	18	1,634,969	1,431,305
Due from other banks	19	40,516,191	32,216,896
Accounts with parent and fellow subsidiaries	20	<u>19,005,987</u>	<u>16,951,321</u>
		<u>125,302,169</u>	<u>118,458,379</u>
Government securities purchased under resale agreements	21	<u>3,801,093</u>	<u>600,518</u>
Pledged assets	22	<u>1,830,371</u>	<u>1,666,966</u>
Loans, net of allowance for credit losses	23	<u>196,471,953</u>	<u>178,885,119</u>
Financial assets at fair value through profit or loss	25	<u>721,725</u>	<u>706,176</u>
Investment securities	26	<u>60,030,298</u>	<u>64,929,956</u>
Investment in subsidiaries		<u>220,000</u>	<u>220,000</u>
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		7,078,111	6,962,563
Taxation recoverable		-	343,644
Sundry assets	27	2,267,171	1,986,164
Property, plant and equipment	28	8,349,169	5,788,971
Intangible assets	29	4,272	27,527
Retirement benefits asset	30	<u>28,242,497</u>	<u>43,704,650</u>
		<u>45,941,220</u>	<u>58,813,519</u>
		<u>434,318,829</u>	<u>424,280,633</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*


	Notes	2020	2019
LIABILITIES			
Deposits by the public	31	328,527,317	304,538,247
Due to other banks and financial institutions	32	1,795,611	1,698,610
Due to parent and ultimate parent company	33	4,873,664	4,858,125
Due to subsidiaries	34	3,408,665	2,748,363
Due to fellow subsidiaries	34	<u>3,407,045</u>	<u>5,177,558</u>
		<u>342,012,302</u>	<u>319,020,903</u>
Other liabilities			
Cheques and other instruments in transit		1,890,757	2,343,813
Acceptances, guarantees and letters of credit		7,115,260	7,000,742
Other liabilities	35	8,371,853	5,701,649
Taxation payable		366,471	596,593
Deferred tax liabilities	36	6,510,336	12,532,999
Retirement benefits obligation	30	<u>4,541,887</u>	<u>4,646,759</u>
		<u>28,796,564</u>	<u>32,822,555</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	42,101,341
Cumulative remeasurement result from investment securities	41	212,220	150,277
Capital reserve	42	42,087	42,087
Loan loss reserve	43	-	1,952,792
Unappropriated profits		<u>15,296,467</u>	<u>22,332,830</u>
		<u>63,509,963</u>	<u>72,437,175</u>
		<u>434,318,829</u>	<u>424,280,633</u>

The financial statements on pages 5 to 111 were approved for issue by the Board of Directors and signed on its behalf on December 9, 2020 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, 2020**

(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>
Adjusted balances at November 1, 2018		2,927,232	2,930,616	34,101,341	(37,838)	42,087	1,701,284	23,131,212	64,795,934
Profit for the year		-	-	-	-	-	-	9,932,119	9,932,119
Other comprehensive income:									
Remeasurement of retirement benefits plans, net of taxes		-	-	-	-	-	-	5,424,533	5,424,533
Unrealised gains on investment securities, net of taxes and provisions		-	-	-	295,302	-	-	-	295,302
Realised gains on investment securities transferred, net of taxes		-	-	-	(107,187)	-	-	-	(107,187)
Total other comprehensive income		-	-	-	188,115	-	-	5,424,533	5,612,648
Total comprehensive income		-	-	-	188,115	-	-	15,356,652	15,544,767
Transfer to retained earnings reserve		-	-	8,000,000	-	-	-	(8,000,000)	-
Transfer to loan loss reserve		-	-	-	-	-	251,508	(251,508)	-
Dividends paid	50	-	-	-	-	-	-	(7,903,526)	(7,903,526)
Net movement for the year		-	-	8,000,000	-	-	251,508	(16,155,034)	(7,903,526)
Balances at October 31, 2019		2,927,232	2,930,616	42,101,341	150,277	42,087	1,952,792	22,332,830	72,437,175
Profit for the year		-	-	-	-	-	-	5,079,126	5,079,126
Other comprehensive (loss)/income:									
Remeasurement of retirement benefits plans, net of taxes		-	-	-	-	-	-	(11,228,866)	(11,228,866)
Unrealised gains on investment securities, net of taxes and provisions		-	-	-	385,518	-	-	-	385,518
Realised gains on investment securities transferred, net of taxes		-	-	-	(323,575)	-	-	-	(323,575)
Total other comprehensive (loss)/income		-	-	-	61,943	-	-	(11,228,866)	(11,166,923)
Total comprehensive (loss)/income		-	-	-	61,943	-	-	(6,149,740)	(6,087,797)
Transfer from loan loss reserve		-	-	-	-	-	(1,952,792)	1,952,792	-
Dividends paid	50	-	-	-	-	-	-	(2,839,415)	(2,839,415)
Net movement for the year		-	-	-	-	-	(1,952,792)	(866,623)	(2,839,415)
Balances at October 31, 2020		2,927,232	2,930,616	42,101,341	212,220	42,087	-	15,296,467	63,509,963

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Statement of Cash Flows****Year ended October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Cash flows from operating activities			
Profit for the year		5,079,126	9,932,119
Adjustments for:			
Taxation charge	15	2,324,285	3,279,077
Depreciation	28	756,002	543,510
Amortisation of right of use of asset	28	141,509	-
Amortisation of intangible assets	29	23,255	22,127
Expected credit losses		6,422,956	3,339,950
Gain on sale of property, plant and equipment	11	(3,083)	(185,933)
Increase in retirement benefits plans	12	(1,378,799)	(1,016,854)
Gain on extinguishment of liability	11	(213,438)	-
		13,151,813	15,913,996
Interest income	7	(22,410,887)	(22,097,417)
Interest expense	7	867,737	869,919
		(8,391,337)	(5,313,502)
Changes in operating assets and liabilities			
Loans		(22,908,857)	(30,370,228)
Deposits by the public		24,200,763	25,574,668
Statutory reserves at Bank of Jamaica		3,232,031	5,945,042
Other liabilities, net		1,566,366	233,245
Due to parent company and fellow subsidiaries		(1,080,224)	2,160,232
Amounts with parents and fellow subsidiaries		(3,217,221)	(4,818,303)
Due to other banks and financial institutions		97,001	516,176
Sundry assets, net		(281,008)	(253,529)
Guarantees and acceptances (net)		419	118
Taxation recoverable		343,644	479,003
Retirement benefits plans		(107,219)	(114,366)
		(6,545,642)	(5,961,444)
Interest received		21,281,287	22,142,597
Interest paid		(855,711)	(893,910)
Taxation paid		(2,991,900)	(3,046,949)
Net cash provided by operating activities		<u>10,888,034</u>	<u>12,240,294</u>
Cash flows from investing activities			
Investment securities		5,005,236	13,013,005
Pledged assets		(164,578)	(111,870)
Purchase of property, plant and equipment	28	(2,228,524)	(1,107,838)
Lease payments, net	35(d)	(153,259)	-
Proceeds from sale of property, plant and equipment		3,455	255,604
Net cash provided by investing activities		<u>2,462,330</u>	<u>12,018,901</u>
Net cash flows from operating and investing activities (carried forward to page 18)		<u>13,350,364</u>	<u>24,259,195</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2020	2019
Cash flows from operating and investing activities (brought forward from page 17)		<u>13,350,364</u>	<u>24,259,195</u>
Cash flows from financing activity			
Dividends paid, being net cash used by financing activity	50	(<u>2,839,415</u>)	(<u>7,903,526</u>)
Net cash used by financing activities		(<u>2,839,415</u>)	(<u>7,903,526</u>)
Effect of exchange rate changes on cash and cash equivalents		<u>3,217,221</u>	<u>4,818,303</u>
Net increase in cash and cash equivalents		13,728,170	21,173,972
Cash and cash equivalents at beginning of year		<u>84,903,430</u>	<u>63,729,458</u>
Cash and cash equivalents at end of year	18	<u>98,631,600</u>	<u>84,903,430</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, 2020

(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, 2020.

2. Changes in significant accounting policies

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

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

New revised and amended standard and interpretation that became effective during the year:

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

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

- (a) Definition of a lease

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Changes in significant accounting policies (continued)**

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

New revised and amended standard and interpretation that became effective during the year (continued):**(a) Definition of a lease (continued)**

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

(b) As a lessee

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

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

Leases classified as operating leases under IAS 17

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

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

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

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

(c) As a lessor

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Changes in significant accounting policies (continued)****The details, nature and effects of the changes are as follows (continued):****(d) Impact on transition**

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

	<u>Group</u>	<u>Bank</u>
Right-of-use assets – property, plant and equipment	1,181,916	1,167,088
Lease liabilities	(1,181,916)	(1,167,088)
	<u>-</u>	<u>-</u>

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

	<u>Group</u>	<u>Bank</u>
Operating lease commitments at October 31, 2019 as disclosed under IAS 17 in the Group's financial statements	1,757,720	1,504,900
Discounted using the incremental borrowing rate at November 1, 2019	(444,141)	(361,706)
Extension and termination options and other adjustments	(131,663)	23,894
Lease liabilities recognised at November 1, 2019	<u>1,181,916</u>	<u>1,167,088</u>

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

Statement of compliance

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

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

- (i) IFRS 17 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2023, replaces IFRS 4 *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach. The key principles in IFRS 17 are that an entity:
- identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event, (the insured event) adversely affects the policyholder;

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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

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

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

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

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

The Group is assessing the impact that the standard will have on its 2023 financial statements.

- (i) 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 derecognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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

(ii) (continued)

- A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present;
- A new control-based approach to derecognition 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 2024 financial statements.

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

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

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

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

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

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

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and its subsidiaries presented as a single economic entity. The Company and its subsidiaries are collectively referred to as "the Group".

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(b) Basis of consolidation (continued)**

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

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

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

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

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

(c) Segment reporting

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

(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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

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

(e) Revenue recognition

Interest income

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

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

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

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

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

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

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.

Fee and commission income

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Fee and commission income (continued)

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

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

Performance obligations and revenue recognition policies:

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition under IFRS 15
Investment banking services	The Group provides investment banking related services, including execution of customers' transactions and maintenance of customers' investments records. Fees are charged when the 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.

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, 2020

(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 account balances incurred in the period are recorded as expenses in the statement of revenue and expenses.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as summarised in note 3(j). These liabilities are adjusted through profit or loss to reflect any changes in the valuation of the liabilities.

(h) Claims

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(i) Reinsurance contracts held

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

(j) Policyholders' liabilities

(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.

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities

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 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

Classification and measurement

Classification and measurement of financial assets

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

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

Financial assets include both debt and equity instruments.

Debt instruments

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

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

Classification of debt instruments is determined based on:

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

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, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)***Debt instruments measured at amortised cost*

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income on these instruments is recognised in interest income using the effective interest 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 financial transaction.

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, realised 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, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Debt instruments measured at 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. Realised and unrealised 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, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Equity instruments measured at 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, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Financial liabilities designated at FVTPL (continued)

Financial liabilities 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 revenue and expenses 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 revenue and expenses upon derecognition/extinguishment of the liabilities.

Determination of fair value

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the 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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)**

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 revenue and expenses.

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

Derecognition of financial liabilities

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(m) Embedded derivatives

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

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

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.

(n) Cash and cash equivalents

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

(o) Allowance for expected credit losses

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

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

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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for expected credit losses (continued)

Expected credit loss impairment model (continued)

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

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument. The expected credit loss is computed using 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.

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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(o) Allowance for impairment losses (continued)***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 three additional economic scenarios and consideration of the relative probabilities of each outcome.

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

Assessment of significant increase in credit risk (SIR)

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for impairment losses (continued)

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

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.

Expected life

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

Modified financial assets

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for impairment losses (continued)

Modified financial assets (continued)

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

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

Definition of default

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

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

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

Write-off policy

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(o) Allowance for impairment losses (continued)***Purchased loans*

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

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

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

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

(p) Repurchase and reverse repurchase agreements

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

(q) Acceptances and guarantees

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

(r) Property, plant and equipment

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(r) Property, plant and equipment (continued)

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

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

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

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

Computer software

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

(u) Employee benefits

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(u) Employee benefits (continued)**

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

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, 2020***(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, through which it provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits in profit or loss.

The amount contributed to the ESOP trust (note 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, 2020

(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

Policy applicable from November 1, 2019

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

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

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

(i) As a lessee

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(x) Leases (continued)

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

(i) As a lessee (continued)

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

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

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(x) Leases (continued)

(i) As a lessee (continued)

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

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

(ii) As a lessor

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

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

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

Short-term leases and leases of low-value assets

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

Policy applicable before November 1, 2019

As lessee

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(x) Leases (continued)

Policy applicable before November 1, 2019 (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, 2020

(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)

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.

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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***4. Critical accounting estimates, and judgements made in applying accounting policies (continued)***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 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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***5. Responsibilities of the appointed actuary and external auditors (continued)**

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.

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 – this comprises non-trading subsidiaries.

Transactions between the business segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of items on the statement of financial position, but exclude items such as taxation, retirement benefits asset and obligation and borrowings. Eliminations comprise intercompany transactions and balances.

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

	The Group					Group
	2020					
	Retail	Banking Corporate and Commercial	Treasury	Insurance services	Eliminations	
Net external revenues	20,704,235	8,175,855	7,157,359	4,391,870	-	40,429,319
Revenue from other segments	<u>58,152</u>	<u>846,654</u>	<u>(911,601)</u>	<u>7,947</u>	<u>(1,152)</u>	-
Total revenues	20,762,387	9,022,509	6,245,758	4,399,817	<u>(1,152)</u>	40,429,319
Total expenses and losses	<u>(19,762,209)</u>	<u>(7,641,909)</u>	<u>(558,078)</u>	<u>(1,244,290)</u>	-	<u>(29,206,486)</u>
Profit before tax	<u>1,000,178</u>	<u>1,380,600</u>	<u>5,687,680</u>	<u>3,155,527</u>	<u>(1,152)</u>	11,222,833
Taxation	-					<u>(3,861,625)</u>
Profit for the year						<u>7,361,208</u>
Segment assets	<u>140,076,126</u>	<u>110,084,187</u>	<u>180,801,164</u>	<u>59,212,736</u>	<u>(5,082,552)</u>	485,091,661
Unallocated assets						<u>30,513,941</u>
Total assets						<u>515,605,602</u>
Net interest income	<u>188,565,747</u>	<u>175,781,648</u>	<u>-</u>	<u>45,963,939</u>	<u>(4,729,629)</u>	405,581,705
Unallocated liabilities						<u>19,790,546</u>
Total liabilities						<u>425,372,251</u>
Other segment items:						
Capital expenditure	922,263	1,307,058	-	3,573	-	2,232,894
Impairment losses on loan	5,832,486	103,920	<u>(39,632)</u>	<u>(30,636)</u>	-	5,866,138
Depreciation and amortisation	<u>607,860</u>	<u>308,883</u>	<u>5,558</u>	<u>14,275</u>	<u>-</u>	<u>936,576</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, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

	The Group					Group
	2019					
	<u>Retail</u>	<u>Banking Corporate and Commercial</u>	<u>Treasury</u>	<u>Insurance services</u>	<u>Eliminations</u>	
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>	-
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>(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
Impairment losses on loans	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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***7. Net interest income**

	The Group		The Bank	
	2020	2019	2020	2019
Interest income calculated using the effective interest method:				
Deposits with banks and other financial institutions	375,968	1,192,360	345,752	1,109,684
Investment securities	3,430,767	4,042,844	1,443,056	1,859,091
Reverse repurchase agreements	14,211	13,596	7,252	15,884
Loans and advances	<u>22,656,636</u>	<u>21,455,424</u>	<u>20,614,827</u>	<u>19,112,758</u>
	<u>26,477,582</u>	<u>26,704,224</u>	<u>22,410,887</u>	<u>22,097,417</u>
Interest expense measured on the effective interest basis:				
Banks and customers	1,159,472	1,419,337	842,444	861,135
Repurchase agreements	-	8,459	562	8,717
Policyholders' liabilities	1,220,394	1,322,039	-	-
Other	<u>44,194</u>	<u>19,145</u>	<u>24,731</u>	<u>67</u>
	<u>2,424,060</u>	<u>2,768,980</u>	<u>867,737</u>	<u>869,919</u>
Net interest income	<u>24,053,522</u>	<u>23,935,244</u>	<u>21,543,150</u>	<u>21,227,498</u>

8. Net fee and commission income

	The Group		The Bank	
	2020	2019	2020	2019
Fee and commission income:				
Retail banking fees	6,458,734	6,988,831	6,434,069	6,955,399
Credit related fees	1,125,526	1,356,951	1,114,085	1,343,486
Commercial and depository fees	5,388,193	5,608,442	5,388,968	5,608,442
Insurance related fees	269,667	269,014	-	-
Other fees	<u>382,241</u>	<u>-</u>	<u>382,241</u>	<u>-</u>
	13,624,361	14,223,238	13,319,363	13,907,327
Fee and commission expenses	<u>(8,397,042)</u>	<u>(7,928,559)</u>	<u>(8,397,042)</u>	<u>(7,928,559)</u>
	<u>5,227,319</u>	<u>6,294,679</u>	<u>4,922,321</u>	<u>5,978,768</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***10. Insurance revenue**

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

11. Other revenue

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net gain on sale of property, plant and equipment	3,083	185,933	3,083	185,933
Dividend income	-	-	1,478,161	3,840,631
Gain on extinguishment of liability	1,177,215	-	213,438	-
Other	<u>12,420</u>	<u>-</u>	<u>12,420</u>	<u>-</u>
	<u>1,192,718</u>	<u>185,933</u>	<u>1,707,102</u>	<u>4,026,564</u>

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

12. Salaries, pension contributions and other staff benefits

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Wages and salaries	9,090,581	9,044,614	8,582,663	8,521,977
Statutory payroll contributions	832,641	745,303	796,045	704,029
Other staff benefits	<u>1,377,499</u>	<u>1,497,671</u>	<u>1,295,286</u>	<u>1,430,721</u>
	<u>11,300,721</u>	<u>11,287,588</u>	<u>10,673,994</u>	<u>10,656,727</u>
Post employment benefits				
Pension credit on defined benefit plan [note 30(a)(v)]	(1,841,420)	(1,559,843)	(1,841,420)	(1,559,843)
Other post-retirement benefits cost [note 30(b)(ii)]	<u>462,621</u>	<u>542,989</u>	<u>462,621</u>	<u>542,989</u>
	<u>(1,378,799)</u>	<u>(1,016,854)</u>	<u>(1,378,799)</u>	<u>(1,016,854)</u>
Total (note 13)	<u>9,921,922</u>	<u>10,270,734</u>	<u>9,295,195</u>	<u>9,639,873</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***13. Expenses by nature**

	The Group		The Bank	
	2020	2019	2020	2019
Salaries, pension contributions and other staff benefits (note 12)	9,921,922	10,270,734	9,295,195	9,639,873
Property expenses, including depreciation	2,385,089	2,056,335	2,313,249	1,987,245
Systems related expenses	1,880,355	1,634,091	1,836,954	1,696,125
Insurance claims and benefits	252,443	215,875	-	-
Transportation and communication	943,556	907,116	922,363	877,592
Marketing and advertising	493,228	418,075	486,784	394,580
Professional, legal and consultancy fees	344,086	354,599	290,423	307,060
Technical and support services	4,130,293	3,937,284	4,049,277	3,788,605
Asset tax	1,128,921	1,067,056	935,131	862,862
Licensing and fees paid to regulators	121,285	114,013	84,856	77,516
Deposit insurance	498,213	466,127	479,083	444,346
Stationery	448,396	357,658	441,041	350,894
Other operating expenses	792,561	778,839	530,720	706,207
	<u>23,340,348</u>	<u>22,577,802</u>	<u>21,665,076</u>	<u>21,132,905</u>

14. Profit before taxation

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

	The Group		The Bank	
	2020	2019	2020	2019
Auditors' remuneration	37,745	37,054	27,020	26,220
Depreciation of property, plant and equipment	759,456	546,239	756,002	543,510
Depreciation of right-of-use assets	153,865	-	141,509	-
Amortisation of intangible assets	23,255	24,128	23,255	22,127
Directors' emoluments:				
Fees	5,496	9,191	1,773	1,773
Management remuneration	58,654	59,657	58,654	59,657
Operating lease rentals	-	<u>359,912</u>	-	<u>310,807</u>

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

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

	The Group		The Bank	
	2020	2019	2020	2019
Current income tax:				
Income tax at 33½%	2,761,778	3,193,418	2,761,778	3,193,418
Income tax at 30%	672,242	522,179	-	-
Income tax at 25%	852,119	945,012	-	-
Adjustment for over provision of prior year's charge	-	(3,953)	-	(3,953)
	4,286,139	4,656,656	2,761,778	3,189,465
Deferred income tax [note 36(a)]	(424,514)	19,988	(437,493)	89,612
	<u>3,861,625</u>	<u>4,676,644</u>	<u>2,324,285</u>	<u>3,279,077</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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	
	2020	2019	2020	2019
Profit before taxation	<u>11,222,833</u>	<u>14,871,918</u>	<u>7,403,411</u>	<u>13,211,196</u>
Tax calculated at 33 $\frac{1}{3}$ %	3,740,944	4,957,306	2,467,804	4,403,732
Adjusted for the tax effects of:				
Different tax regimes applicable to life insurance and mortgage financing subsidiaries	(228,904)	(427,948)	-	-
Interest/dividend from tax free investments	(2,299)	(4,729)	(495,019)	(1,284,939)
Expenses not deductible for tax purposes	399,736	344,811	348,247	290,513
Prior year over provision	-	(3,953)	-	(3,953)
Other charges and allowances	<u>(47,852)</u>	<u>(188,843)</u>	<u>3,253</u>	<u>(126,276)</u>
Taxation expense	<u>3,861,625</u>	<u>4,676,644</u>	<u>2,324,285</u>	<u>3,279,077</u>
Effective tax rate	<u>34.41%</u>	<u>31.45%</u>	<u>31.39%</u>	<u>24.82%</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	
	2020	2019
Profit for the year attributable to stockholders	<u>7,361,208</u>	<u>10,195,274</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>2.51</u>	<u>3.48</u>

17. Cash and balances at Bank of Jamaica

	The Group		The Bank	
	2020	2019	2020	2019
Statutory reserves with Bank of Jamaica				
– non interest-bearing (note 18)	28,679,603	31,929,861	28,579,290	31,811,321
Cash in hand and at bank	<u>39,848,446</u>	<u>38,114,477</u>	<u>35,565,732</u>	<u>36,047,536</u>
	<u>68,528,049</u>	<u>70,044,338</u>	<u>64,145,022</u>	<u>67,858,857</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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.

Relevant legislation	Entity	Reserve percentage			
		Jamaican		Foreign currency	
		2020	2019	2020	2019
Banking Services Act, 2014, Section 43	BNSJ	5%	7%	13%	15%
Building Society Regulations, Section 31	SJBS	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>

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

18. Cash and cash equivalents

	The Group		The Bank	
	2020	2019	2020	2019
Cash resources	129,685,196	120,643,860	125,302,169	118,458,379
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 17)	(28,679,603)	(31,929,861)	(28,579,290)	(31,811,321)
Cheques and other instruments in transit	(1,774,136)	(2,096,168)	(1,890,757)	(2,343,813)
Expected credit losses	847	15,558	822	15,485
Accrued interest	(3,205)	(15,764)	(1,344)	(15,300)
	99,229,099	86,617,625	94,831,600	84,303,430
Add other cash equivalent balances:				
Repurchase agreement less than ninety days (note 21)	<u>3,800,000</u>	<u>600,000</u>	<u>3,800,000</u>	<u>600,000</u>
Cash and cash equivalents	<u>103,029,099</u>	<u>87,217,625</u>	<u>98,631,600</u>	<u>84,903,430</u>
Cash and cash equivalent is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	39,849,293	38,130,035	35,566,554	36,063,021
Government and bank notes other than Jamaican	1,634,969	1,431,305	1,634,969	1,431,305
Amounts due from other banks	40,516,191	32,216,896	40,516,191	32,216,896
Accounts with parent and fellow subsidiaries	19,005,987	16,951,321	19,005,987	16,951,321
Repurchase agreements	3,800,000	600,000	3,800,000	600,000
Accrued interest	(3,205)	(15,764)	(1,344)	(15,300)
	104,803,235	89,313,793	100,522,357	87,247,243
Less: Cheques and other instruments in transit	(1,774,136)	(2,096,168)	(1,890,757)	(2,343,813)
	<u>103,029,099</u>	<u>87,217,625</u>	<u>98,631,600</u>	<u>84,903,430</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***19. Due from other banks**

	The Group		The Bank	
	2020	2019	2020	2019
Items in course of collection from other banks	232,735	449,885	232,735	449,885
Placements with other banks	<u>40,283,456</u>	<u>31,767,011</u>	<u>40,283,456</u>	<u>31,767,011</u>
	<u>40,516,191</u>	<u>32,216,896</u>	<u>40,516,191</u>	<u>32,216,896</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.

	The Group		The Bank	
	2020	2019	2020	2019
Reverse repurchase agreements	3,800,000	600,000	3,800,000	600,000
Interest receivable	<u>1,093</u>	<u>518</u>	<u>1,093</u>	<u>518</u>
	<u>3,801,093</u>	<u>600,518</u>	<u>3,801,093</u>	<u>600,518</u>

There were no securities included in Government securities purchased under resale agreements with an original maturity less than ninety days for group and bank (2019: \$600,000 for the Group and the Bank).

The fair value of collateral held pursuant to reverse repurchase agreements is \$4,110,985 (2019: \$630,818) 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.

	The Group		The Bank	
	2020	2019	2020	2019
Securities with regulators, clearing house and other financial institutions	<u>1,830,371</u>	<u>1,666,966</u>	<u>1,830,371</u>	<u>1,666,966</u>

Included in pledged assets are:

- (a) Government issued securities held as fair value through OCI, amounting to \$1,830,371 (2019: \$1,666,966) 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, 2020*(Expressed in thousands of Jamaican dollars unless otherwise stated)***23. Loans, net of allowance for credit losses**

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Business and Government	100,596,111	82,817,333	100,596,111	82,817,333
Personal and credit cards	83,064,221	88,523,414	82,069,121	87,331,692
Residential mortgages	42,539,512	37,245,924	19,319,999	11,604,005
Interest receivable	<u>2,444,548</u>	<u>1,097,721</u>	<u>1,988,326</u>	<u>847,761</u>
Total	228,644,392	209,684,392	203,973,557	182,600,791
Allowance for expected credit losses (note 24)	(<u>7,968,894</u>)	(<u>4,138,436</u>)	(<u>7,501,604</u>)	(<u>3,715,672</u>)
	<u>220,675,498</u>	<u>205,545,956</u>	<u>196,471,953</u>	<u>178,885,119</u>

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Neither past due nor impaired	<u>178,476,092</u>	<u>192,132,731</u>	<u>159,552,580</u>	<u>168,213,211</u>
Past due but not impaired				
Past due 1-30 days	19,922,756	7,465,391	16,002,097	5,816,582
Past due 31-60 days	20,147,122	4,023,020	19,585,338	3,763,552
Past due 61-90 days	<u>2,895,571</u>	<u>1,250,537</u>	<u>2,737,517</u>	<u>1,043,968</u>
	<u>42,965,449</u>	<u>12,738,948</u>	<u>38,324,952</u>	<u>10,624,102</u>
Impaired:				
Past due more than 90 days	<u>4,758,303</u>	<u>3,714,994</u>	<u>4,107,699</u>	<u>2,915,717</u>
Interest receivable	<u>2,444,548</u>	<u>1,097,719</u>	<u>1,988,326</u>	<u>847,761</u>
Gross loan portfolio	228,644,392	209,684,392	203,973,557	182,600,791
Allowance for expected credit losses	(<u>7,968,894</u>)	(<u>4,138,436</u>)	(<u>7,501,604</u>)	(<u>3,715,672</u>)
Loans, net allowance for credit losses	<u>220,675,498</u>	<u>205,545,956</u>	<u>196,471,953</u>	<u>178,885,119</u>

(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, 2020***(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.

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

	The Group				2019 Total
	2020			Total	
	Stage 1	Stage 2	Stage 3	Total	
Allowance at beginning of year	1,379,240	1,311,628	1,447,568	4,138,436	3,422,566
Provided during the year	2,064,423	1,650,328	2,631,342	6,346,093	3,403,039
Bad debts written off	-	-	2,529,884	2,529,884	(2,691,315)
Foreign exchange movement	(781,298)	229,537	566,010	14,249	4,146
Transfer to/(from) stages					
Stage 1	1,241,811	(1,051,943)	(189,868)	-	-
Stage 2	(363,033)	769,770	(406,737)	-	-
Stage 3	(19,505)	(652,455)	671,960	-	-
Allowance at end of year (note 23)	<u>3,521,638</u>	<u>2,256,865</u>	<u>2,190,391</u>	<u>7,968,894</u>	<u>4,138,436</u>
Provided during the year	2,064,423	1,650,328	2,631,342	6,346,093	3,403,039
Recoveries of bad debts	-	-	(626,648)	(626,648)	(716,454)
Expected credit losses reported in profit for the year	<u>2,064,423</u>	<u>1,650,328</u>	<u>2,004,694</u>	<u>5,719,445</u>	<u>2,686,585</u>
	The Bank				2019 Total
	2020			Total	
	Stage 1	Stage 2	Stage 3	Total	
Allowance at beginning of year	1,315,117	1,146,756	1,253,799	3,715,672	3,001,558
Provided during the year	2,110,728	1,727,416	2,436,916	6,275,060	3,399,237
Bad debts written off	-	-	(2,503,377)	(2,503,377)	(2,689,269)
Foreign exchange movement	(781,298)	229,537	566,010	14,249	4,146
Transfer to/(from) stages					
Stage 1	1,161,912	(992,079)	(169,833)	-	-
Stage 2	(355,165)	624,010	(268,845)	-	-
Stage 3	(19,471)	(606,643)	626,114	-	-
Allowance at end of year (note 23)	<u>3,431,823</u>	<u>2,128,997</u>	<u>1,940,784</u>	<u>7,501,604</u>	<u>3,715,672</u>
Provided during the year	2,110,728	1,727,416	2,436,916	6,275,060	3,399,237
Recoveries of bad debts	-	-	(625,172)	(625,172)	(714,053)
Expected credit losses reported in profit for the year	<u>2,110,728</u>	<u>1,727,416</u>	<u>1,811,744</u>	<u>5,649,888</u>	<u>2,685,184</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***24. Expected credit losses on loans (continued)**

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

	The Group		The Bank	
	2020	2019	2020	2019
Allowance for expected credit losses based on IFRS – [see (a) below]	7,968,894	4,138,436	7,501,604	3,715,672
Additional allowance based on BOJ regulations [see (b) below]	209,757	2,293,023	-	1,952,792
	8,178,651	6,431,459	7,501,604	5,668,464

(a) This is the allowance based on the requirements of IFRS 9.

(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 43).

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 \$1,138,340 (2019: \$1,038,713) for the Group and \$970,316 (2019: \$835,124) for the Bank. The total allowance for loan losses is made up as follows:

25. Financial assets at fair value through profit or loss

	The Group		The Bank	
	2020	2019	2020	2019
Government of Jamaica securities	2,364,718	2,326,467	709,795	698,313
Unit trusts	295,369	342,748	-	-
	2,660,087	2,669,215	709,795	698,313
Accrued interest	11,930	7,863	11,930	7,863
	2,672,017	2,677,078	721,725	706,176

26. Investment securities

	The Group		The Bank	
	2020	2019	2020	2019
Fair value through other comprehensive income				
Government securities	97,682,684	111,468,015	50,991,458	60,732,048
Bank of Jamaica securities	7,027,778	-	5,345,583	-
Treasury bills	2,669,565	1,382,487	2,669,565	1,382,487
Corporate bonds	752,597	2,543,846	752,597	2,543,846
Unquoted equities	5,105	5,105	5,105	5,105
Interest receivable	772,388	668,800	265,990	266,470
	108,910,117	116,068,253	60,030,298	64,929,956

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of \$90,000 (2019: \$90,000) which have been deposited by one of the 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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***27. Sundry assets**

	The Group		The Bank	
	2020	2019	2020	2019
Accounts receivable	396,683	369,579	396,598	369,579
Deferred charges	1,116,703	1,074,301	1,109,401	1,065,394
Other	<u>765,249</u>	<u>553,646</u>	<u>761,172</u>	<u>551,191</u>
	<u>2,278,635</u>	<u>1,997,526</u>	<u>2,267,171</u>	<u>1,986,164</u>

28. Property, plant and equipment

	The Group					
	Freehold land and buildings	Leasehold improvements	Furniture, fixtures, motor vehicles & equipment	Capital work-in- progress	Right-of- use-asset	Total
Cost						
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>	-	-
October 31, 2019	4,456,989	491,089	7,472,449	810,034	-	13,230,561
Impact of first time application of IFRS 16 (note 2)	-	-	-	-	1,181,916	1,181,916
Additions	21,824	4,160	73,319	2,133,591	46,939	2,279,833
Disposals	-	-	(60,159)	-	(5,543)	(65,702)
Transfers	652,359	63,818	454,823	(1,171,000)	-	-
Translation adjustment	-	-	-	-	<u>19,433</u>	<u>19,433</u>
October 31, 2020	<u>5,131,172</u>	<u>559,067</u>	<u>7,940,432</u>	<u>1,772,625</u>	<u>1,242,745</u>	<u>16,646,041</u>
Depreciation						
October 31, 2018	936,388	432,099	5,511,406	-	-	6,879,893
Charge for the year	94,102	20,066	432,071	-	-	546,239
Disposals	-	-	(8,641)	-	-	(8,641)
October 31, 2019	1,030,490	452,165	5,934,836	-	-	7,417,491
Charge for the year	110,942	32,080	616,434	-	153,865	913,321
Disposals	-	-	(59,788)	-	(2,827)	(62,615)
Translation adjustment	-	-	-	-	<u>571</u>	<u>571</u>
October 31, 2020	<u>1,141,432</u>	<u>484,245</u>	<u>6,491,482</u>	-	<u>151,609</u>	<u>8,268,768</u>
Net book values						
October 31, 2020	<u>3,989,740</u>	<u>74,822</u>	<u>1,448,950</u>	<u>1,772,625</u>	<u>1,091,136</u>	<u>8,377,273</u>
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>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***28. Property, plant and equipment (continued)**

	The Bank					
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in Progress	Right-of- use-assets	Total
Cost						
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>	<u>-</u>
October 31, 2019	4,425,552	482,843	7,369,785	809,298	-	13,087,478
Impact of first time application of IFRS 16 (note 2)	-	-	-	-	1,167,088	1,167,088
Additions	21,824	4,160	68,949	2,133,591	46,322	2,274,846
Disposals	-	-	(60,159)	-	(5,543)	(65,702)
Transfers	652,359	63,818	454,823	(1,171,000)	-	-
Translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,433</u>	<u>19,433</u>
October 31, 2020	<u>5,099,735</u>	<u>550,821</u>	<u>7,833,398</u>	<u>1,771,889</u>	<u>1,227,300</u>	<u>16,483,143</u>
Accumulated depreciation						
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>-</u>	<u>(8,641)</u>
October 31, 2019	1,017,212	444,509	5,836,786	-	-	7,298,507
Charge for the year	110,255	32,080	613,667	-	141,509	897,511
Eliminated on disposals	-	-	(59,788)	-	(2,827)	(62,615)
Translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>571</u>	<u>571</u>
October 31, 2020	<u>1,127,467</u>	<u>476,589</u>	<u>6,390,665</u>	<u>-</u>	<u>139,253</u>	<u>8,133,974</u>
Net book values						
October 31, 2020	<u>3,972,268</u>	<u>74,232</u>	<u>1,442,733</u>	<u>1,771,889</u>	<u>1,088,047</u>	<u>8,349,169</u>
October 31, 2019	<u>3,408,340</u>	<u>38,334</u>	<u>1,532,999</u>	<u>809,298</u>	<u>-</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>-</u>	<u>5,264,314</u>

29. Intangible assets

	Computer Software	
	The Group	The Bank
Cost		
October 31, 2019 and 2020	<u>210,344</u>	<u>122,528</u>
Amortisation		
October 31, 2018	78,876	72,874
Amortisation for the year	<u>24,128</u>	<u>22,127</u>
October 31, 2019	103,004	95,001
Amortisation for the year	<u>23,255</u>	<u>23,255</u>
October 31, 2020	<u>126,259</u>	<u>118,256</u>
Net book values		
October 31, 2020	<u>84,085</u>	<u>4,272</u>
October 31, 2019	<u>107,340</u>	<u>27,527</u>
October 31, 2018	<u>131,468</u>	<u>49,654</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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***30. Retirement benefits asset/obligation (continued)**

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

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

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

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

(iii) Movement in the present value of obligation

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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>2020</u>	<u>2019</u>
(iv) Movement in fair value of pension plan assets		
Fair value of plan assets at beginning of year	81,759,728	70,550,611
Contributions	633,492	584,991
Benefits paid	(1,463,616)	(1,413,413)
Interest income on plan assets	5,284,030	5,256,301
Administrative fees	(179,106)	(145,001)
Remeasurement gain on plan assets included in other comprehensive income:	(9,321,176)	<u>6,926,239</u>
Fair value of plan assets at end of year	<u>76,713,352</u>	<u>81,759,728</u>
Plan assets consist of the following:		
Government stocks and bonds	45,663,057	43,741,086
Quoted equities	23,149,701	30,247,495
Reverse repurchase agreements	929,498	234,745
Certificates of deposit	2,239,667	2,759,757
Real estate	3,764,059	3,173,561
Net current assets	<u>967,370</u>	<u>1,603,084</u>
	<u>76,713,352</u>	<u>81,759,728</u>
(v) Components of defined benefit income recognised in statement of revenue and expenses		
	<u>2020</u>	<u>2019</u>
Current service costs	846,097	898,563
Interest cost on obligation	2,429,646	2,652,894
Interest income on plan assets	(5,284,030)	(5,256,301)
Administrative fees	<u>166,867</u>	<u>145,001</u>
	<u>(1,841,420)</u>	<u>(1,559,843)</u>
(vi) Components of defined benefit income recognised in other comprehensive income		
	<u>2020</u>	<u>2019</u>
Remeasurement of defined benefits obligations	(6,576,074)	(700,981)
Remeasurement of plan assets	9,333,415	(6,926,239)
Change in effect on asset ceiling	<u>14,546,732</u>	<u>-</u>
	<u>17,304,073</u>	<u>(7,627,220)</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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.

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

(viii) Liability duration

The average liability duration was as follows:

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

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

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

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

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

(i) Movement in the present value of unfunded obligations

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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)

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

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

(iii) Credit recognised in other comprehensive income

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

(iv) Principal actuarial assumptions

In addition to the assumptions used for the pension plan that are applicable to the group health plan, the estimate assumes a long-term increase in health costs of 6.50% (2019: 4.50%) 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.

	<u>The Group and The Bank</u>			
	<u>2020</u>		<u>2019</u>	
	1 % <u>Increase</u>	1 % <u>Decrease</u>	1 % <u>Increase</u>	1 % <u>Decrease</u>
Discount rate	(639,000)	814,000	(703,000)	909,000
Health inflation rate	752,000	(601,000)	803,000	(634,000)
Salary increase rate	<u>11,000</u>	<u>(10,000)</u>	<u>17,000</u>	<u>(15,000)</u>

(vi) Liability duration

The average liability duration is as follows:

	<u>The Group and The Bank</u>	
	<u>2020</u>	<u>2019</u>
Active members and all participants	<u>16.6</u>	<u>17.6</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***31. Deposits by the public**

	The Group		The Bank	
	2020	2019	2020	2019
Personal	181,987,046	161,808,073	174,259,551	153,967,548
Business	154,634,525	151,089,922	154,248,506	150,553,185
Interest payable	38,867	70,152	19,260	17,514
	<u>336,660,438</u>	<u>312,968,147</u>	<u>328,527,317</u>	<u>304,538,247</u>

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

32. Due to other banks and financial institutions

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

33. Due to parent and ultimate parent company

	The Group and The Bank	
	2020	2019
The Bank of Nova Scotia:		
Facility I	-	598,109
Facility II	857,547	1,368,579
	857,547	1,966,688
Interest payable	10,630	24,939
	868,177	1,991,627
Deposits held with the Bank:		
Scotia Group Jamaica Limited	3,992,630	2,843,923
The Bank of Nova Scotia	12,857	22,575
	<u>4,873,664</u>	<u>4,858,125</u>

- (i) Facility I is a US\$ denominated twelve (12) year non-revolving loan from the parent company, for on-lending and is subject to a fixed interest rate of 5.63% per annum the repayment of the principal commenced May 2012 and matured on August 2020.
- (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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***35. Other liabilities**

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Accrued staff benefits	3,196,208	2,646,871	3,067,496	2,527,901
Provisions	280,293	405,662	273,982	389,579
Prepaid letters of credit	117,901	32,929	117,901	32,929
Accrued liabilities	3,872,777	2,831,524	3,810,894	2,751,240
Lease liabilities [note 35(i)]	<u>1,104,708</u>	<u>-</u>	<u>1,101,580</u>	<u>-</u>
	<u>8,571,887</u>	<u>5,916,986</u>	<u>8,371,853</u>	<u>5,701,649</u>

(i) Leases

- Leases as lessee

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

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

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

(a) Right-of-use assets

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

	<u>The Group</u>	<u>The Bank</u>
	<u>2020</u>	<u>2020</u>
	<u>\$'000</u>	<u>\$'000</u>
(b) Lease liabilities	<u>1,104,708</u>	<u>1,101,580</u>

Lease liabilities are classified as follows:

Current	124,731	121,603
Non-current	<u>979,977</u>	<u>979,977</u>
	<u>1,104,708</u>	<u>1,101,580</u>

Maturity analysis of contractual undiscounted cash flows:

Less than one year	147,391	144,263
One to five years	496,846	496,846
Over five years	<u>597,184</u>	<u>597,184</u>
	<u>1,241,421</u>	<u>1,238,293</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***35. Other liabilities (continued)****(i) Leases (continued)**

- Leases as lessee (continued)

	<u>The Group</u> 2020 \$'000	<u>The Bank</u> 2020 \$'000
(c) Amounts recognised in profit or loss:		
Interest expense on lease liabilities	24,772	24,728
Depreciation on right-of-use assets	153,865	141,509
Expenses related to short-term leases	33,522	17,824

	<u>The Group</u> 2020 \$'000	<u>The Bank</u> 2020 \$'000
(d) Amounts recognised in statement of cash flows:		
Total cash outflow for leases	<u>165,620</u>	<u>153,259</u>

(e) Extension options

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

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

The Bank did not have any leases with extension options.

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, 2020***(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:

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Balances at beginning of year	(13,073,533)	(10,365,736)	(12,532,999)	(9,532,342)
Exchange rate adjustment on ECL	4,495	-	4,496	-
Recognised in profit [note 15(a)]	424,514	(19,988)	437,493	(89,612)
Recognised in other comprehensive income:				
Remeasurement of retirement benefits assets/obligations	5,614,435	(2,712,266)	5,614,435	(2,712,266)
Investment securities:				
- fair value remeasurement	(96,775)	(168,097)	(195,597)	(252,125)
- transfer to profit	89,752	192,554	161,836	53,346
	<u>6,036,421</u>	<u>(2,707,797)</u>	<u>6,022,663</u>	<u>(3,000,657)</u>
Net deferred tax liability	<u>(7,037,112)</u>	<u>(13,073,533)</u>	<u>(6,510,336)</u>	<u>(12,532,999)</u>

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Retirement benefits asset	(9,414,166)	(14,570,028)	(9,414,166)	(14,570,028)
Other retirement benefits obligations	1,513,948	1,549,339	1,513,948	1,549,339
Investment securities	(412,173)	(540,742)	(163,196)	(129,435)
Vacation accrued	153,213	136,686	142,818	127,656
Accelerated tax depreciation	17,099	(33,124)	15,242	(34,303)
Allowances for expected credit losses	1,419,992	458,538	1,447,576	497,393
Exchange rate adjustment on ECL	4,495	-	4,496	-
Interest receivable	(119,288)	(100,644)	-	-
Unrealised foreign exchange gains	(87,930)	-	(87,930)	-
Right of use of asset	4,508	-	4,498	-
Residual tax from gains/losses transferred to retained earnings	(143,189)	-	-	-
Other	26,379	26,442	26,378	26,379
Net deferred tax liability	<u>(7,037,112)</u>	<u>(13,073,533)</u>	<u>(6,510,336)</u>	<u>(12,532,999)</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***36. Deferred tax assets and liabilities (continued)**

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

	The Group		The Bank	
	2020	2019	2020	2019
Accelerated tax depreciation	(50,223)	(33,129)	(49,545)	(32,406)
Pension and other post retirement benefits	493,960	377,035	493,960	377,035
Allowance for loan expected credit losses	(961,454)	(304,209)	(950,180)	(252,316)
Vacation accrued	(16,527)	(4,118)	(15,162)	(2,721)
Interest receivable	18,644	(25,794)	-	-
Unrealised foreign exchange gains	87,930	-	87,930	-
Right of use of asset	(4,508)	-	(4,496)	-
Other ECLs	7,664	10,203	-	20
Total (note 15)	(424,514)	19,988	(437,493)	89,612

37. Policyholders' liabilities

- (a) Composition of policyholders' liabilities

	The Group	
	2020	2019
Insurance risk reserve - Individual life	(9,528,836)	(8,906,602)
- Individual accident and sickness	513,096	452,653
- Whole life	106,014	99,088
- Group life	728,174	844,542
	(8,181,552)	(7,510,319)
Policyholders' fund	52,384,076	51,802,107
Benefits and claims payable	333,220	233,934
Unprocessed premiums	18,798	21,506
Annuity fund	745,074	592,815
	45,299,616	45,140,043

- (b) Movement in policyholders' liabilities

	The Group	
	2020	2019
Policyholders fund:		
At beginning of year	51,802,107	51,594,637
Gross premiums	4,886,323	4,886,323
Disbursements	(5,524,748)	(6,000,892)
Interest credited	1,220,394	1,322,039
At end of year	52,384,076	51,802,107
Benefits and claims payable:		
At beginning of year	233,934	181,629
Claims charged during the year	351,729	268,180
Benefits and claims paid	(252,443)	(215,875)
At end of year	333,220	233,934

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***37. Policyholders' liabilities (continued)**

(b) Movement in policyholders' liabilities (continued)

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

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

38. Share capital

Authorised:

	<u>Number of Units ('000)</u>	
	<u>2020</u>	<u>2019</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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Ordinary stock units	<u>2,927,232</u>	<u>2,927,232</u>	<u>2,927,232</u>	<u>2,927,232</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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.

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 investment securities

This represents the unrealised surplus or deficit on the revaluation of investment securities.

42. Capital reserve

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Liquidation of Scotia Jamaica				
General Insurance Brokers Limited	9,383	9,383	9,383	9,383
Dissolution of SDBG Merchant Bank Limited	-	-	<u>32,704</u>	<u>32,704</u>
	<u>9,383</u>	<u>9,383</u>	<u>42,087</u>	<u>42,087</u>

43. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over the expected credit losses determined under IFRS requirements (note 24).

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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***44. Related party transactions and balances (continued)**

Related party transactions with the ultimate parent company comprise the payment of dividends, management fees, guarantee fees, centralised computing and other service fees. There were no balances due to the ultimate parent company, other than those set out in note 33. No impairment losses have been recognised in respect of loans made to related parties.

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

	The Group					
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	Total	
					2020	2019
Loans						
Balance at October 31	-	-	711,764	7,595,226	8,306,990	8,579,074
Interest earned	-	-	31,764	645,104	676,868	615,455
Deposit liabilities						
Balance at October 31	4,873,664	5,270,465	1,682,309	4,330,255	16,156,693	16,519,518
Interest expense	80,991	130,434	241	8,464	220,130	244,013
Investments/Repurchase agreements						
Securities purchased under repurchase under repurchase agreements	-	27,700,222	-	-	27,700,222	-
Interest received on repurchase agreements	-	1,110	-	-	1,110	-
Other investments	-	295,369	-	-	295,369	522,475
Interest earned on other investments	-	61,157	-	5,284	66,441	55,670
Deposits with Banks						
Due from banks and other financial institutions	1,624,321	17,381,666	-	-	19,005,987	16,951,321
Interest earned from banks and other financial institutions	68	117,691	-	-	117,759	400,888
Other						
Fees and commission (paid)/earned	-	(153,706)	(63,679)	31,962	(185,423)	(561,700)
Insurance products			15,292	-	15,292	13,494
Technical service fees (paid)/received	(1,941,494)	78,700	-	-	(1,862,794)	(2,110,990)
Other operating (expense) /income	(4,007,531)	(2,304,093)	-	-	(6,311,624)	(3,402,001)

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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	
					2020	2019
Loans						
Balance at October 31	-	-	618,296	7,512,135	8,130,431	8,425,402
Interest income earned	-	-	25,436	635,676	661,112	604,359
Deposit liabilities						
Balance at October 31	4,873,664	6,815,711	1,650,691	4,311,039	17,651,105	17,258,341
Interest expense	80,991	47,684	196	8,437	137,308	196,384
Investments/Repurchase agreements						
Securities purchased under repurchase agreement	-	2,700,222	-	-	2,700,222	-
Interest received on repurchase agreements	-	548	-	-	548	2,546
Other investments	-	-	-	-	-	179,727
Interest earned on other investments	-	-	-	5,284	5,284	11,077
Deposit assets						
Due from banks and other financial institutions	1,624,321	17,381,666	-	-	19,005,987	16,951,321
Interest earned from banks and other financial institutions	68	117,691	-	-	117,759	400,888
Due (to)/from fellow subsidiaries	-	(3,743)	-	-	(3,743)	(884)
Other						
Fees and commission earned	-	(30,564)	(59,958)	31,961	(58,561)	458
Technical service fees (paid)/received	(2,010,652)	128,327	-	-	(1,882,325)	(1,955,543)
Other operating (expense)/income	(4,007,531)	(318,118)	-	-	(4,325,649)	776,793

	The Group		The Bank	
	2020	2019	2020	2019
Key management compensation				
Salaries and other short term benefits	712,294	654,371	612,367	562,622
Post-employment benefits	(47,801)	(163,224)	(47,801)	(163,224)
	<u>664,493</u>	<u>491,147</u>	<u>564,566</u>	<u>399,398</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, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(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, 2020

(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. Allowance for expected credit losses 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, 2020

(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, 2020***(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:

	The Group		The Bank	
	Loans and credit commitments		Loans and credit commitments	
	2020	2019	2020	2019
	(%)	(%)	(%)	(%)
Excellent	18.0	21.4	14.4	17.5
Very Good	0.5	1.1	0.6	1.3
Good	24.0	25.7	21.9	23.5
Acceptable	11.8	13.3	13.1	15.1
Higher Risk	45.7	38.5	50.0	42.6
	<u>100.0</u>	<u>100.0</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:

	The Group			
	2020			
Category of PD Grade	Stage 1	Stage 2	Stage 3	Total
Very Low	22,186,228	33,267	-	22,219,495
Low	28,694,380	75,459	-	28,769,839
Medium	41,788,654	1,788,120	-	43,576,774
High	20,975,692	3,359,484	-	24,335,176
Very High	219,016	3,900,251	-	4,119,267
Subtotal: PD Grades (Advanced Models)	113,863,970	9,156,581	-	123,020,551
Loans not graded (intermediate or simplified or gross-up)	269,610	(58,751)	-	210,859
Default	-	-	4,013,629	4,013,629
Total	114,133,580	9,097,830	4,013,629	127,245,039
Expected credit losses retail (including all credit card segments)	(3,204,237)	(2,094,976)	(2,035,663)	(7,334,876)
Carrying amount	<u>110,929,343</u>	<u>7,002,854</u>	<u>1,977,966</u>	<u>119,910,163</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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):**Commercial loans excluding all credit card segments:**

Internal Grade	IG Code	S&P	Stage 1	Stage 2	Stage 3	Total
Investment grade	99-98	AAA to AA+	-	909,296	-	909,296
	95	AA to A+	-	221,805	-	221,805
	90	A to A-	-	1,112,473	-	1,112,473
	87	BBB+	-	65,055	-	65,055
	85	BBB	8,803,706	2,004,231	-	10,807,937
	83	BBB-	1,572,683	3,599,742	-	5,172,425
Non-investment	80	BB+	3,858,836	3,255,146	-	7,113,982
	77	BB	14,656,894	584,957	-	15,241,851
	75	BB-	32,674,795	3,075,402	-	35,750,197
	73	B+	21,353,012	227,063	-	21,580,075
	70	B to B-	713,800	1,163,981	-	1,877,781
Watch	65	CCC+	-	274,141	-	274,141
	60	CCC	-	474,243	-	474,243
	40	CCC- to CC	-	53,418	-	53,418
Default			-	-	744,674	744,674
Total			83,633,726	17,020,953	744,674	101,399,353
Expected credit losses			(317,401)	(161,890)	(154,727)	(634,018)
Carrying amount			83,316,325	16,859,063	589,947	100,765,335
The Group						
2019						

Category of PD Grade	Stage 1	Stage 2	Stage 3	Total
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	12,987	2,918,975	-	2,931,962
Subtotal: PD Grades (Advanced Models)	114,602,679	7,051,895	-	121,654,574
Loans not graded (intermediate or simplified or gross-up)	3,148,381	212,406	-	3,360,787
Default	-	-	3,056,557	3,056,557
Total	117,751,060	7,264,301	3,056,557	128,071,918
Expected credit losses retail (including all credit card segments)	(1,146,936)	(1,135,683)	(1,243,905)	(3,526,524)
Carrying amount	116,604,124	6,128,618	1,812,652	124,545,394

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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):**Commercial loans excluding all credit card segments:**

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

The Bank

2020				
Category of PD Grade	Stage 1	Stage 2	Stage 3	Total
Very Low	1,706,425	-	-	1,706,425
Low	26,186,298	11,284	-	26,197,582
Medium	41,680,590	349,944	-	42,030,534
High	20,975,692	3,037,994	-	24,013,686
Very High	219,016	3,900,251	-	4,119,267
Subtotal: PD Grades (Advanced Models)	90,768,021	7,299,473	-	98,067,494
Loans not graded (intermediate or simplified or gross-up)	1,031,883	111,802	-	1,143,685
Default	-	-	3,363,025	3,363,025
Total	91,799,904	7,411,275	3,363,025	102,574,204
Expected credit loss allowance	(3,114,422)	(1,967,107)	(1,786,057)	(6,867,586)
Carrying amount	88,685,482	5,444,168	1,576,968	95,706,618

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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):****Commercial loans excluding all credit card segments:**

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

The Bank 2019				
Category of PD Grade	Stage 1	Stage 2	Stage 3	Total
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	-	-	2,257,280	2,257,280
Total	93,447,743	5,283,296	2,257,280	100,988,319
Expected credit losses	(1,082,815)	(970,811)	(1,050,136)	(3,103,762)
Carrying amount	<u>92,364,928</u>	<u>4,312,485</u>	<u>1,207,144</u>	<u>97,884,557</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(b) Credit risk (continued)****(iii) Credit quality (continued)****Commercial loans excluding all credit card segments:**

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

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

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

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

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(b) Credit risk (continued)**

(iii) Credit quality (continued)

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

	The Group		The Bank	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	%	%	%	%
Standard	83.4	84.4	82.3	83.1
Special Mention	14.3	13.8	15.5	15.2
Sub-Standard	1.1	1.1	1.1	1.1
Doubtful	0.7	0.4	0.7	0.4
Loss	<u>0.5</u>	<u>0.3</u>	<u>0.4</u>	<u>0.2</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 Group		
	2020		2019
	Stage 1	Total	
AAA to AA+	10,065,435	10,065,435	29,146,021
AA to A+	15,239,866	15,239,866	1,444,424
BB to B-	90,351,080	90,351,080	94,090,515
Unrated	<u>3,739,587</u>	<u>3,739,587</u>	<u>935,572</u>
Allowance	<u>119,395,968</u>	<u>119,395,968</u>	<u>125,616,532</u>
	The Bank		
	2020		2019
	Stage 1	Total	
AAA to AA+	10,065,435	10,065,435	29,146,021
AA to A+	15,239,866	15,239,866	1,444,424
BB to B-	38,518,871	38,518,871	39,257,123
Unrated	<u>754,336</u>	<u>754,336</u>	<u>935,572</u>
Allowance	<u>64,578,508</u>	<u>64,578,508</u>	<u>70,783,140</u>

Classified as follows:

	The Group		The Bank	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Amortised cost	6,283,936	5,552,088	2,001,219	3,485,147
Fair value through OCI	108,905,012	116,063,148	60,025,193	64,924,851
Fair value through profit or loss	2,376,649	2,334,330	721,725	706,176
Pledged assets:				
Fair value through OCI	<u>1,830,371</u>	<u>1,666,966</u>	<u>1,830,371</u>	<u>1,666,966</u>
	<u>119,395,968</u>	<u>125,616,532</u>	<u>64,578,508</u>	<u>70,783,140</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(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 \$152,087,882 (2019: \$140,521,509) for the Group and \$127,717,731 (2019: \$113,393,305) 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, 2020*(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 2020</u>	<u>Total 2019</u>
Agriculture, fishing and mining	737,213	26,213	763,426	1,002,926
Construction and real estate	3,757,966	918,368	4,676,334	6,308,825
Distribution	16,093,258	69,100	16,162,358	18,566,486
Financial institutions	7,584,942	1,168,348	8,753,290	9,310,321
Government and public entities	9,559,474	52,709	9,612,183	11,796,112
Manufacturing	14,611,096	24,697	14,635,793	10,640,956
Transportation, electricity, water and other	21,591,399	1,511,726	23,103,125	15,444,739
Personal	125,603,733	1,090,686	126,694,419	127,125,033
Professional and other services	12,688,417	2,213,649	14,902,066	11,540,496
Tourism and entertainment	13,972,344	52,749	14,025,093	3,980,229
Interest receivable	<u>2,444,550</u>	-	<u>2,444,550</u>	<u>1,097,721</u>
Total	228,644,392	7,128,245	235,772,637	216,813,844
Expected credit losses			(8,006,191)	(4,178,101)
			<u>227,766,446</u>	<u>212,635,743</u>

	The Bank			
	<u>Loans</u>	Acceptances, guarantees and letters of credit	<u>Total 2020</u>	<u>Total 2019</u>
Agriculture, fishing and mining	737,213	26,213	763,426	1,002,926
Construction and real estate	3,757,966	918,368	4,676,334	6,308,825
Distribution	16,093,258	69,100	16,162,358	18,566,486
Financial institutions	7,584,942	1,168,348	8,753,290	9,435,501
Government and public entities	9,559,474	52,709	9,612,183	11,796,112
Manufacturing	14,611,096	24,697	14,635,793	10,640,956
Transportation, electricity, water and other	21,591,399	1,511,726	23,103,125	15,444,739
Personal	101,389,120	1,077,701	102,466,821	100,037,503
Professional and other services	12,688,417	2,213,649	14,902,066	11,540,496
Tourism and entertainment	13,972,344	52,749	14,025,093	3,980,226
Interest receivable	<u>1,988,328</u>	-	<u>1,988,328</u>	<u>847,763</u>
Total	203,973,557	7,115,260	211,088,817	189,601,533
Expected credit losses			(7,538,753)	(3,753,851)
			<u>203,550,064</u>	<u>185,847,682</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk**

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

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

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

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

(i) Interest rate risk

Interest rate risk is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; changes in the market price of credit; and the creditworthiness of a particular issuer. The Group actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Group's funding and investment activities is managed in accordance with Board-approved policies and limits, which are designed to control the risk to net interest income and economic value of shareholders' equity.

The income limit measures the effect of a specified shift in interest rates on the Group's annual net income over the next twelve months, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Group's net assets. Interest rate exposures in individual currencies are also controlled by gap limits.

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)**

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

	The Group						
	2020						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	27,363,829	48,750,770	1,200,000	-	-	52,370,597	129,685,196
Securities purchased under resale agreements	-	3,800,000	-	-	-	1,093	3,801,093
Financial assets at fair value through revenue and expenses	-	-	-	2,376,649	-	295,368	2,672,017
Pledged assets	-	1,826,735	-	-	-	3,636	1,830,371
Loans (2)	85,985,573	21,603,454	23,059,358	78,477,509	10,274,613	1,274,991	220,675,498
Investment securities (3)	50,950	43,355,868	17,803,005	31,504,860	15,437,051	758,383	108,910,117
Other assets	-	-	-	-	-	48,031,310	48,031,310
Total assets	113,400,352	119,336,827	42,062,363	112,359,018	25,711,664	102,735,378	515,605,602
Deposits by the public	330,753,669	8,776,409	8,958,196	1,822,656	-	61,359	350,372,289
Other liabilities	-	-	-	-	-	29,700,346	29,700,346
Policyholders' liabilities	41,457,706	1,489,664	10,533,798	-	-	(8,181,552)	45,299,616
Stockholders' equity	-	-	-	-	-	90,233,351	90,233,350
Total liabilities and stockholders' equity	372,211,375	10,266,073	19,491,994	1,822,656	-	111,813,504	515,605,602
Total interest rate sensitivity gap	(258,811,023)	109,070,754	22,570,369	110,536,362	25,711,664	(9,078,126)	-
Cumulative gap	(258,811,023)	(149,740,269)	(127,169,900)	(16,633,538)	9,078,126	-	-
	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
Total assets	117,657,246	115,841,748	36,724,077	107,502,528	12,873,083	117,417,104	508,015,786
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	-	-

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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						
	2020						
	(1) Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	28,563,681	44,470,866	-	-	-	52,267,622	125,302,169
Securities purchased under resale agreements	-	3,800,000	-	-	-	1,093	3,801,093
Financial assets at fair value through revenue and expenses	-	-	-	721,725	-	-	721,725
Pledged assets	-	1,826,735	-	-	-	3,636	1,830,371
Loans (2)	67,052,462	20,206,795	20,209,880	77,948,374	10,258,847	795,595	196,471,953
Investment securities (3)	50,950	29,467,939	13,547,098	16,679,936	7,787	276,588	60,030,298
Subsidiaries	-	-	-	-	-	220,000	220,000
Other assets	-	-	-	-	-	45,941,220	45,941,220
Total assets	95,667,093	99,772,335	33,756,978	95,350,035	10,266,634	99,505,754	434,318,829
Deposits by the public	328,901,487	6,129,962	5,901,529	1,049,357	-	29,967	342,012,302
Other liabilities	-	-	-	-	-	28,796,564	28,796,564
Stockholders' equity	-	-	-	-	-	63,509,963	63,509,963
Total liabilities and stockholders' equity	328,901,487	6,129,962	5,901,529	1,049,357	-	92,336,494	434,318,829
Total interest rate sensitivity gap	(233,234,394)	93,642,373	27,855,449	94,300,678	10,266,634	7,169,260	-
Cumulative gap	(233,234,394)	(139,592,021)	(111,736,572)	(17,435,894)	(7,169,260)	-	-

	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
Total assets	96,792,803	85,723,317	33,287,344	90,903,572	2,807,298	114,766,299	424,280,633
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 and sensitivity gap	(208,636,833)	78,678,218	27,602,020	90,042,728	2,807,298	9,506,569	-
Cumulative gap	(208,636,833)	(129,958,615)	(102,356,595)	(12,313,867)	(9,506,569)	-	-

(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, 2020***(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					
	2020					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted Average
	%	%	%	%	%	%
ASSETS						
Cash resources	0.04	0.15	3.30	-	-	0.16
Securities purchased under resale agreements	-	1.18	-	-	-	1.18
Financial assets at fair value through profit or loss	-	-	-	6.23	-	6.23
Pledged assets	-	0.73	-	-	-	0.73
Loans (1)	12.59	12.34	9.16	9.08	7.17	10.70
Investment securities (2)	-	1.47	1.87	4.34	4.88	2.86
LIABILITIES						
Deposits (3)	0.21	0.72	1.07	3.48	-	0.26
Policyholders' liabilities	<u>2.21</u>	<u>2.49</u>	<u>2.40</u>	<u>-</u>	<u>-</u>	<u>2.26</u>
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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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					
	2020					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	-	0.10	-	-	-	0.06
Securities purchased under resale agreements	-	1.18	-	-	-	1.18
Pledged assets	-	0.73	-	-	-	0.73
Financial assets at fair value through profit or loss	-	-	-	3.32	-	3.32
Loans (1)	14.16	12.39	9.14	9.09	7.16	11.07
Investment securities (2)	-	1.44	2.46	4.15	2.28	2.43
LIABILITIES						
Deposits (3)	<u>0.18</u>	<u>0.36</u>	<u>0.52</u>	<u>5.28</u>	<u>-</u>	<u>0.20</u>
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
Financial assets at fair value through profit or loss	-	2.11	2.36	2.59	2.14	2.25
Pledged assets	-	1.88	-	-	-	1.88
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>

(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, 2020***(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 2019.

	2020		2019	
	The Group		The Bank	
	2020	2019	2020	2019
JMD Interest rates	Increase/decrease by 140bps		Increase/decrease by 225bps	
USD Interest rates	Increase/decrease by 400bps		Increase/decrease by 225bps	
Effect on profit	3,097,448	2,768,829	2,829,976	2,242,974
Effect on Stockholders' equity	<u>13,438,123</u>	<u>10,094,846</u>	<u>13,638,191</u>	<u>9,982,039</u>

(ii) Currency risk

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

The tables below summarise the exposure to relevant currencies:

	The Group						
	2020						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	50,249,990	70,027,178	2,849,228	5,527,974	883,545	147,281	129,685,196
Government securities purchased under resale agreements	3,801,093	-	-	-	-	-	3,801,093
Pledged assets	1,830,371	-	-	-	-	-	1,830,371
Loans	185,436,509	35,239,767	(782)	4	-	-	220,675,498
Financial assets at FVTPL	2,672,017	-	-	-	-	-	2,672,017
Investments	78,159,608	29,531,747	1,218,762	-	-	-	108,910,117
Other assets	<u>44,243,428</u>	<u>3,520,809</u>	<u>1,282</u>	<u>6,920</u>	<u>259,492</u>	<u>(621)</u>	<u>48,031,310</u>
	<u>366,393,016</u>	<u>138,319,501</u>	<u>4,068,490</u>	<u>5,534,898</u>	<u>1,143,037</u>	<u>146,660</u>	<u>515,605,602</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)**
October 31, 2020*(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

JMD Equivalent	The Group						
	2020						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	212,664,499	127,863,759	3,968,343	5,319,762	554,771	1,155	350,372,289
Other liabilities	25,711,631	3,625,977	54,834	33,698	262,956	11,250	29,700,346
Policyholders' liabilities	45,299,616	-	-	-	-	-	45,299,616
	<u>283,675,746</u>	<u>131,489,736</u>	<u>4,023,177</u>	<u>5,353,460</u>	<u>817,727</u>	<u>12,405</u>	<u>425,372,251</u>
NET POSITION	<u>82,717,270</u>	<u>6,829,765</u>	<u>45,313</u>	<u>181,438</u>	<u>325,310</u>	<u>134,255</u>	<u>90,233,351</u>

JMD Equivalent	The Group						
	2019						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
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>
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	45,140,043	-	-	-	-	-	45,140,043
	<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 BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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):

JMD Equivalent	The Bank						
	2020						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
ASSETS							
Cash resources	45,868,236	70,026,479	2,849,228	5,527,400	883,545	147,281	125,302,169
Government securities purchased under resale agreements	3,801,093	-	-	-	-	-	3,801,093
Pledged assets	1,830,371	-	-	-	-	-	1,830,371
Loans	161,232,964	35,239,767	(782)	4	-	-	196,471,953
Financial assets at FVPTL	721,725	-	-	-	-	-	721,725
Investment securities	29,279,789	29,531,747	1,218,762	-	-	-	60,030,298
Investment in subsidiaries	220,000	-	-	-	-	-	220,000
Other assets	<u>42,153,338</u>	<u>3,520,809</u>	<u>1,282</u>	<u>6,920</u>	<u>259,492</u>	<u>(621)</u>	<u>45,941,220</u>
	<u>285,107,516</u>	<u>138,318,802</u>	<u>4,068,490</u>	<u>5,534,324</u>	<u>1,143,037</u>	<u>146,660</u>	<u>434,318,829</u>
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	204,305,811	127,863,035	3,968,343	5,319,187	554,771	1,155	342,012,302
Other liabilities	<u>24,807,849</u>	<u>3,625,977</u>	<u>54,834</u>	<u>33,698</u>	<u>262,956</u>	<u>11,250</u>	<u>28,796,564</u>
	<u>229,113,660</u>	<u>131,489,012</u>	<u>4,023,177</u>	<u>5,352,885</u>	<u>817,727</u>	<u>12,405</u>	<u>370,808,866</u>
NET POSITION	<u>55,993,856</u>	<u>6,829,790</u>	<u>45,313</u>	<u>181,439</u>	<u>325,310</u>	<u>134,255</u>	<u>63,509,963</u>

JMD Equivalent	The Bank						
	2019						
	<u>JMD</u>	<u>USD</u>	<u>CAD</u>	<u>GBP</u>	<u>EUR</u>	<u>OTHER</u>	<u>TOTAL</u>
ASSETS							
Cash resources	49,364,126	58,902,956	3,711,399	5,536,437	667,293	276,168	118,458,379
Government securities purchased under resale agreements	600,518	-	-	-	-	-	600,518
Pledged assets	1,666,966	-	-	-	-	-	1,666,966
Loans	152,708,523	26,176,700	(110)	3	3	-	178,885,119
Financial assets at FVPTL	706,176	-	-	-	-	-	706,176
Investment securities	34,224,794	30,705,162	-	-	-	-	64,929,956
Investment in subsidiaries	220,000	-	-	-	-	-	220,000
Other assets	<u>55,968,960</u>	<u>2,734,399</u>	<u>46</u>	<u>(36)</u>	<u>110,150</u>	<u>-</u>	<u>58,813,519</u>
	<u>295,460,063</u>	<u>118,519,217</u>	<u>3,711,335</u>	<u>5,536,404</u>	<u>777,446</u>	<u>276,168</u>	<u>424,280,633</u>
LIABILITIES							
Deposits, due to financial institutions, parent and fellow subsidiaries	193,444,969	115,993,106	3,598,107	5,240,967	743,424	330	319,020,903
Other liabilities	<u>29,060,005</u>	<u>3,295,628</u>	<u>97,395</u>	<u>66,494</u>	<u>112,906</u>	<u>190,127</u>	<u>32,822,555</u>
	<u>222,504,974</u>	<u>119,288,734</u>	<u>3,695,502</u>	<u>5,307,461</u>	<u>856,330</u>	<u>190,457</u>	<u>351,843,458</u>
NET POSITION	<u>72,955,089</u>	<u>(769,517)</u>	<u>15,833</u>	<u>228,943</u>	<u>(78,884)</u>	<u>85,711</u>	<u>72,437,175</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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:

	Average rate for the period		Reporting date spot rate	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
USD	140.2926	131.9916	145.1010	138.9420
CAD	104.7737	98.5815	110.8010	103.3703
GBP	180.7931	166.5244	188.0946	176.2299
EUR	<u>159.4470</u>	<u>145.7749</u>	<u>170.3776</u>	<u>152.1042</u>

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the 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 2019. The strengthening of the JMD against the same currencies at October 31 would have had an equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

	<u>2020</u>		<u>2019</u>	
	Increase/decrease		Increase/decrease	
USD	by 8.25%		by 8.25%	
CAD	by 12.25%		by 4.50%	
GBP	by 15.25%		by 2.95%	
EUR	by 14.00%		by 4.00%	
	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Effect on profit and stockholders' equity	<u>200,005</u>	<u>275,700</u>	<u>199,208</u>	<u>275,700</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, 2020***(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	337,185,818	9,481,320	2,872,162	1,770,694	351,309,994	350,372,289
Other liabilities	4,101,621	2,691,069	591,114	1,518,577	8,902,381	8,902,381
Policyholders' liabilities	<u>43,106,094</u>	<u>9,565,295</u>	-	-	<u>52,671,389</u>	<u>45,299,616</u>
Total liabilities	<u>384,393,533</u>	<u>21,737,684</u>	<u>3,463,276</u>	<u>3,289,271</u>	<u>412,883,764</u>	<u>404,574,286</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(d) Liquidity risk (continued)**

Financial liabilities cash flows (continued)

	2019					amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	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>3,771,402</u>	<u>2,358,987</u>	<u>657,539</u>	<u>2,437,692</u>	<u>9,225,620</u>	<u>9,225,620</u>
Total liabilities	<u>361,139,157</u>	<u>20,595,128</u>	<u>4,609,004</u>	<u>7,830,597</u>	<u>394,173,886</u>	<u>386,460,115</u>
	The Bank 2020					Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	335,847,941	5,966,559	220,817	-	342,035,317	342,012,302
Other liabilities	<u>5,316,679</u>	<u>2,673,678</u>	<u>94,268</u>	<u>921,392</u>	<u>9,006,017</u>	<u>9,006,017</u>
Total liabilities	<u>341,164,620</u>	<u>8,640,237</u>	<u>315,085</u>	<u>921,392</u>	<u>351,041,334</u>	<u>351,018,319</u>
	2019					Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	311,997,622	6,153,246	908,045	-	319,058,913	319,020,903
Other liabilities	<u>5,128,630</u>	<u>2,214,724</u>	<u>160,693</u>	<u>1,840,508</u>	<u>9,344,555</u>	<u>9,344,555</u>
Total liabilities	<u>317,126,252</u>	<u>8,367,970</u>	<u>1,068,738</u>	<u>1,840,508</u>	<u>328,403,468</u>	<u>328,365,458</u>

(e) Insurance risk

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

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

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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 table below indicate the concentration of insured benefits across bands of insured benefits of individual and group life assured. The benefits insured are shown across and net of reinsurance.

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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			
	2020		2019	
	Before and after reinsurance	%	Before and after reinsurance	%
(ii) Group Life				
Benefits assured per life				
0 to 250,000	11,132,665	11	11,249,210	11
250,001 to 500,000	4,530,015	4	4,489,216	4
500,001 to 750,000	8,540,533	8	7,966,961	8
750,001 to 1,000,000	6,655,342	6	6,225,170	6
1,000,001 to 1,500,000	20,521,027	21	22,245,282	21
1,500,001 to 2,000,000	14,063,933	14	15,296,232	14
Over 2,000,000	<u>36,500,127</u>	<u>36</u>	<u>37,498,338</u>	<u>36</u>
Total	<u>101,943,642</u>	<u>100</u>	<u>104,970,409</u>	<u>100</u>

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

(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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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)**

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

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

(ii) Reinsurance risk

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

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

Type of insurance contract	Retention
Individual, group & creditor life catastrophe	Maximum retention of \$420 for a single event; Treaty limits apply;
Group creditor life contracts & 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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)

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

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

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

	<u>2020</u>	<u>2019</u>
Interest rates increase by 1%	69,350	49,960
Interest rates decrease by 1%	(22,595)	1,634
Mortality increases by 10%	477,813	453,165
Mortality decreases by 10%	(497,621)	(471,754)
Expenses increase by 10%	401,696	452,613
Expenses decrease by 10%	(399,368)	(448,942)
Lapses and withdrawals increase by 10%	398,596	382,366
Lapses and withdrawals decrease by 10%	(432,375)	(413,889)
Morbidity increase by 10%	137,246	126,398
Morbidity decrease by 10%	(138,633)	(127,649)
Premium persistency increase by 10%	(10,029)	(13,406)
Premium persistency decrease by 10%	<u>10,040</u>	<u>13,353</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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.

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 Fair value through other comprehensive income (FVOCI) 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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***46. Fair value of financial instruments (continued)****Basis of valuation (continued)**

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

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							
	2020							
	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	-	98,438,285	2,376,649	100,814,934	-	100,814,934	-	100,814,934
Bank of Jamaica securities	-	7,043,423	-	7,043,423	-	7,043,423	-	7,043,423
Treasury Bills	-	2,669,565	-	2,669,565	-	2,669,565	-	2,669,565
Corporate bonds	-	753,739	-	753,739	-	753,739	-	753,739
Unitised funds	-	-	295,368	295,368	-	295,368	-	295,368
	-	<u>108,910,117</u>	<u>2,672,017</u>	<u>111,582,134</u>	-	<u>111,577,029</u>	<u>5,105</u>	<u>111,582,134</u>
Pledged assets measured at fair value								
Government securities	-	<u>1,830,371</u>	-	<u>1,830,371</u>	-	<u>1,830,371</u>	-	<u>1,830,371</u>
Financial assets not measured at fair value								
Loans and receivables	<u>62,871,520</u>	-	-	<u>62,871,520</u>	-	-	<u>65,532,073</u>	<u>65,532,073</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***46. Fair value of financial instruments (continued)****Accounting classifications and fair values**

	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>-</u>	<u>116,068,253</u>	<u>2,677,078</u>	<u>118,745,331</u>	<u>-</u>	<u>118,740,226</u>	<u>5,105</u>	<u>118,745,331</u>
Pledged assets measured at fair value								
Government securities	<u>-</u>	<u>1,666,966</u>	<u>-</u>	<u>1,666,966</u>	<u>-</u>	<u>1,666,966</u>	<u>-</u>	<u>1,666,966</u>
Financial assets not measured at fair value								
Loans and receivables	<u>69,289,475</u>	<u>-</u>	<u>-</u>	<u>69,289,475</u>	<u>-</u>	<u>-</u>	<u>72,156,422</u>	<u>72,156,422</u>
The Bank								
2020								
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	-	51,247,513	721,725	51,969,238	-	51,969,238	-	51,969,238
Bank of Jamaica securities	-	5,354,376	-	5,354,376	-	5,354,376	-	5,354,376
Treasury bills	-	2,669,565	-	2,669,565	-	2,669,565	-	2,669,565
Corporate bonds	-	753,739	-	753,739	-	753,739	-	753,739
	<u>-</u>	<u>60,030,298</u>	<u>721,725</u>	<u>60,752,023</u>	<u>-</u>	<u>60,746,918</u>	<u>5,105</u>	<u>60,752,023</u>
Pledged assets measured at fair value								
Government securities	<u>-</u>	<u>1,830,371</u>	<u>-</u>	<u>1,830,371</u>	<u>-</u>	<u>1,830,371</u>	<u>-</u>	<u>1,830,371</u>
Financial assets not measured at fair value								
Loans and receivables	<u>60,336,158</u>	<u>-</u>	<u>-</u>	<u>60,336,158</u>	<u>-</u>	<u>-</u>	<u>62,756,610</u>	<u>62,756,610</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(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>-</u>	<u>64,929,956</u>	<u>706,176</u>	<u>65,636,132</u>	<u>-</u>	<u>65,631,027</u>	<u>5,105</u>	<u>65,636,132</u>
Pledged assets measured at fair value								
Government securities	<u>-</u>	<u>1,666,966</u>	<u>-</u>	<u>1,666,966</u>	<u>-</u>	<u>1,666,966</u>	<u>-</u>	<u>1,666,966</u>
Financial assets not measured at fair value								
Loans and receivables	<u>66,367,531</u>	<u>-</u>	<u>-</u>	<u>66,367,531</u>	<u>-</u>	<u>-</u>	<u>69,012,917</u>	<u>69,012,917</u>

All Government securities and international bonds are valued using the bid price from Bloomberg; his 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.

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

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***47. Capital risk management (continued)**

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

- 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:

- 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
- Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on property, plant and equipment.

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

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

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

	Regulated by BOJ			
	The Scotia Jamaica Building Society		The Bank	
	2020	2019	2020	2019
Tier 1 Capital	5,250,000	5,250,000	47,954,917	47,931,662
Tier 2 Capital	-	-	-	-
Total regulatory capital	5,250,000	5,250,000	47,954,917	47,931,662
Less prescribed deductions	-	-	(220,000)	(220,000)
	<u>5,250,000</u>	<u>5,250,000</u>	<u>47,734,917</u>	<u>47,711,662</u>
Risk weighted assets				
On-balance sheet	12,428,145	13,533,509	260,681,581	253,065,667
Off balance sheet	12,837	127,224	43,807,670	43,766,527
Foreign exchange exposure	-	-	1,946,370	542,049
Total risk weighted assets	<u>12,440,982</u>	<u>13,660,733</u>	<u>306,435,621</u>	<u>297,374,243</u>
Actual regulatory capital to risk weighted assets	42.20%	38.43%	15.58%	16.04%
Regulatory requirement	<u>10.00%</u>	<u>10.00%</u>	<u>10.00%</u>	<u>10.00%</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***47. Capital risk management (continued)****Life Insurance**

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

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

48. Commitments

	<u>The Group</u>		<u>The Bank</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
(a) Capital expenditure authorised and contracted	<u>1,154,990</u>	<u>288,352</u>	<u>1,154,990</u>	<u>288,352</u>
(b) Commitments to extend credit: Originated term to maturity of more than one year	<u>43,995,656</u>	<u>43,941,527</u>	<u>43,995,656</u>	<u>43,941,527</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.

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2020

(Expressed in thousands of Jamaican dollars unless otherwise stated)

50. Dividends

(a) Paid

The Bank paid dividends of \$0.97 per share amounting to \$2,839,415 on December 24, 2019, April 22, 2020, July 22, 2020 and October 21, 2020, as follows:

	<u>The Group and the Bank</u>	
	2020	2019
In respect of 2018	-	1,405,071
In respect of 2019	1,492,889	6,498,455
In respect of 2020	<u>1,346,526</u>	-
	<u>2,839,415</u>	<u>7,903,526</u>

(b) Proposed

At the Board of Directors meeting on December 9, 2020, a dividend in respect of 2020 of \$0.40 per share (2019: \$0.51 per share) amounting to \$1,170,893 was proposed. (2019: \$1,492,888).

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 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 \$36,792 (2019: \$41,650).

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>	
	2020	2019
Number of shares	<u>1,186,470</u>	<u>1,087,268</u>
Fair value of shares	<u>53,243</u>	<u>59,745</u>

THE BANK OF NOVA SCOTIA JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2020***(Expressed in thousands of Jamaican dollars unless otherwise stated)***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 \$12,952,056 (2019: \$13,114,814).

53. Impact of COVID-19

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in significant disruptions to economic activities, business operations and asset prices. In light of the heightened concerns and in accordance with the directives of the various governments, the Group activated its Business Continuity Plan to minimize the potential exposure to staff and clients, whilst ensuring that any disruption to the business is kept at a minimum. With the launch of the Business Continuity and Contingency Plan ("BCCP") as at March, 2020, specific work from home protocols were established and implemented to minimize the number of employees physically in office. In-Office staff are equipped with hand sanitizers, masks and face shields (where necessary), and are required to comply with the social/physical distancing rules mandated by governments in the various jurisdictions. Furthermore, the Group acquired additional equipment, including computer hardware and software, to support the increased flexible working arrangements.

The Group continues to monitor the impact of COVID-19 on its members/customers and has implemented forbearance measures inclusive of granting moratoria, which included deferral of loan payments for up to three months. The Group ensures that all its locations remain compliant with government/public health restrictions and attendant mitigating measures. Under IFRS 9, businesses are expected to include the impact of forward-looking macroeconomic indicators in their Expected Credit Loss (ECL) computation as at October 31, 2020. Management continues to review the effect of developments arising from the pandemic on the risks faced by the Bank and the Group. Management believes the Group is in a sufficiently strong position to deal with the possible significant economic downturn. However, management is aware that a long duration of the pandemic and the attendant containment measures could have a material adverse effect on the Group, and its customers, employees and suppliers.