

MEDIA RELEASE

March 3, 2016

SCOTIA GROUP JAMAICA REPORTS 2016 FIRST QUARTER FINANCIAL RESULTS

2016 FIRST QUARTER HIGHLIGHTS

- Net Income of \$1.96 billion
- Net Income available to common shareholders of \$1.94 billion
- Shareholders' Equity of \$86.4 billion
- Earnings per share of \$0.62
- Return on Average Equity of 9.04%
- Productivity ratio of 64.44%
- First quarter dividend of \$0.42 per share

Scotia Group reports net income of \$1.96 billion and total comprehensive income of \$2.52 billion for the first quarter ended January 31, 2016. This represents an increase in net income by \$481 million or 33%, and total comprehensive income by \$789 million or 46% compared to the quarter ended January 31, 2015. Return on average equity was 9.04% for this quarter, and 7.58% for the period ended January 31, 2015.

The Board of Directors today approved a first interim dividend of 42 cents per stock unit payable on April 15, 2016, to stockholders on record at March 23, 2016.

Jackie Sharp, President & CEO said, "The results for the quarter reflect the execution of our strategy to grow our core business, while prudently managing our risk and controllable expenses. All the business lines commenced FY 2016 with a strong performance, as we experienced a \$141 million or 2% increase in total operating income year over year. We have also begun to benefit from the operating efficiency initiatives implemented last year, as excluding the impact of Asset Tax, we achieved a \$394 million or 8% reduction in operating expenses. Our loan portfolio now stands at \$156 billion, increasing by \$10.1 billion or 7% year over year. Deposits by the public, now stands at \$219 billion, increasing by \$21.2 billion or 11% year over year.

In keeping with our goal to support the development of the Small Medium Enterprise (SME) sector, we have successfully concluded our first 'Scotiabank Vision Achiever' program, and partnered with an internationally acclaimed business coach, to increase the technical business support to our SME clients. Additionally, we invested in ground breaking research with the Inter-American Development Bank, aimed at enhancing SME access to credit through a risk management model that uses psychometric tools to evaluate credit behaviour. We have introduced new innovations that deliver an enhanced service experience to our customers, for example online transfers to other banks and the new Scotiabank Express kiosk in Megamart, Kingston. This pioneering express concept operates with extended hours and provides our customers with an additional banking service option. We look forward to expanding our delivery channels during FY 2016, to make a meaningful difference in our customer experience, while building an even better bank over the longer term."



Scotia Group Jamaica Limited

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GROUP FINANCIAL PERFORMANCE

TOTAL REVENUES

Total revenues excluding impairment losses on loans for the three months ended January 31, 2016 was \$9.06 billion, an increase of \$54 million over prior year, driven by increased volumes countering the impact of reduced margins. The diversified earning streams for the Group continues to provide sustainable revenues from each business line as outlined below:

J\$ Million	Q1/2016 Revenue	% Contribution
Treasury	757	8%
Retail Banking	4,336	48%
Corporate Banking	2,041	23%
Investment Management Services	718	8%
Insurance Services	1,033	11%
Other	174	2%
Total Revenue	9,059	100%

NET INTEREST INCOME AFTER IMPAIRMENT LOSSES

Net interest income after impairment losses for the period was \$5.97 billion, \$236 million above similar quarter in 2015. This was primarily due to growth in net interest income of \$149 million, resulting from lower levels of wholesale funding. The Group also reported strong growth in loan volumes, particularly our Residential Mortgages, Consumer, Small Business and Commercial portfolios to offset the reductions in net interest margins due to lower market interest rates and the competitive environment. Our strong risk management culture has resulted in a reduction in loan losses by \$87 million or 25% year over year, due to enhanced adjudication, monitoring and recovery efforts.

OTHER REVENUE

Other revenue for the quarter amounted to \$2.8 billion, a decrease of \$95 million or 3.25% compared to the quarter ended January 31, 2015. This was due to net losses on financial assets resulting from marked-to-market movements on securities, lower foreign currency gains, offset by the growth in net fee and commission income from increased transaction volumes on our credit card and merchant service business segments. Other revenue was \$1.1 billion below the previous quarter, due primarily to the one-time actuarial release of \$1 billion booked in Q4/2015, resulting from the changes to the income tax regime for insurance companies in 2015.



Scotia Group Jamaica Limited

OPERATING EXPENSES AND PRODUCTIVITY

Operating Expenses for the three months ended January 31, 2016 amounted to \$5.6 billion, a decrease of \$733 million or 11.61% compared to prior year. This was due primarily to a decline in asset tax of \$339 million as the rate for regulated insurance companies moved from 100bps to 25bps; correspondingly the corporate income tax rate for these entities was increased from 15% to 25%. Salary related and other operating expenses were down \$394 million, as we are now reaping the benefits of efficiency initiatives implemented last year. Our productivity ratio was 64.44% for 2016, compared to 73.94% for the same period as at January 31, 2015.

GROUP FINANCIAL CONDITION

ASSETS

Total assets increased year over year by \$25.6 billion or 6.18% to \$439 billion as at January 31, 2016. The growth was primarily attributable to increases of \$10.1 billion or 6.9% in Loans, net of allowance for impairment losses, \$7.69 billion or 3.27% in cash resources, investments and pledged assets, and \$8.1 billion in other assets resulting from a higher Retirement Benefit Asset on our defined benefit plan pension scheme.

Loans, after allowance for impairment losses amounted to \$156.3 billion as at January 31, 2016. Non-performing loans (NPLs) at January 31, 2016 totaled \$4.6 billion, representing 2.9% of total gross loans down from 3.34 % last year, and marginally above 2.88% as at October 31, 2015. The Group's aggregate loan loss provision as at the year-end was \$5 billion, representing over 100% coverage of the total non-performing loans.

LIABILITIES

Total customer liabilities represented by deposits, securities sold under repurchase agreements, and policyholders' funds grew to \$320.6 billion, an increase of \$9.3 billion or 3% compared to January 31, 2015. A significant portion of the growth was reflected in core deposits, which grew by 7.9% year over year, as customers continue to reflect confidence in the strength of the Group. Our securities sold under repurchase agreements declined in keeping with our strategy of reducing our repo business and instead position Scotia Investments as the premier institution for mutual funds and asset management. As at the end of January 31, 2016, our funds under management grew by 17% to \$115.9 billion year over year.

CAPITAL

Shareholders' equity available to common shareholders grew to \$86.4 billion, increasing by \$9.5 billion or 12.3% over January 31, 2015 as a result of internally generated profits. We continue to exceed regulatory capital requirements in all our business lines, and our strong capital position also enables us to manage increased capital adequacy requirements in the future, and take advantage of growth opportunities.



Scotia Group Jamaica Limited

OUR COMMITMENT TO THE COMMUNITY

During the quarter, Scotiabank displayed its corporate social responsibility through donations and Scotia Volunteer support of several charities and activities.

In Community Care, the Bank donated \$4.2 million to various organizations including the Jamaica Environment Trust, Marloe Rodman Trust - Cycling Road to Rio, and the annual launch of the Salvation Army Red Kettle Appeal in Kingston and Montego Bay.

Staff members through the Scotia Volunteers impacted their communities in various ways with an emphasis on children. They hosted several Christmas treats island wide; staged the annual Mary's House in Emancipation Park where with the partnership of artists and actors from the Edna Manley School of the Visual and Performing Arts, they assisted 452 children to create works of art and stage a live nativity scene.

Hundreds of Scotia Volunteers also assisted in the staging of the Shaggy Dare To Care Concert in aid of the Bustamante Hospital for Children and packaging 1,500 packages of food for the Salvation Army.

In Student Care, The Foundation held its annual Scotia Scholars Reunion and Scholarship Awards function for new and continuing scholars. Twenty-two new Scotia Foundation Shining Star Scholars received trophies and certificates for outstanding performances in the 2015 Grade Six Achievement Test.

The Bank launched the second year of its programme Girls Empowered for Motherhood and Success, GEMS in partnerships with the Women's Center Foundation of Jamaica and Jamaica Junior Achievement to give support to teenage mothers in 13 centers island-wide. One hundred and forty Scotia Volunteers were trained by Jamaica Junior Achievement to roll out the Jamaica Career Success course which will benefit 480 teenage mothers enrolled in the Women's Center Foundation.

Scotia Group Jamaica takes this opportunity to thank all of our stakeholders. To our customers, thank you for your loyalty and your business. To our shareholders, thank you for the commitment, trust and confidence you continue to show in us. Our continued success for over 126 years of unbroken service to Jamaica is as a result of the great execution by our team of skilled and dedicated employees, and we thank them for their professionalism and commitment.



Scotia Group Jamaica Limited

Scotia Group Jamaica Limited
Consolidated Statement of Revenue and Expenses
Period ended January 31, 2016

Unaudited (\$ Thousands)	For the three months ended		
	January 2016	October 2015	January 2015
Interest Income	7,539,248	7,640,217	7,628,553
Interest Expense	(1,306,810)	(1,397,107)	(1,545,208)
Net Interest Income	6,232,438	6,243,110	6,083,345
Impairment losses on loans	(256,804)	(294,791)	(344,204)
Net interest income after impairment losses	5,975,634	5,948,319	5,739,141
Net fee and commission income	1,755,125	1,644,508	1,578,994
Insurance revenue	549,963	1,484,711	524,689
Net gains on foreign currency activities	615,159	665,799	746,514
Net (losses) / gains on financial assets	(104,077)	105,336	70,285
Other revenue	10,156	9,110	862
	2,826,326	3,909,464	2,921,344
Total Operating Income	8,801,960	9,857,783	8,660,485
Operating Expenses			
Salaries and staff benefits	2,495,882	2,647,899	2,672,346
Property expenses, including depreciation	435,240	556,519	493,912
Amortisation of intangible assets	22,169	25,592	25,591
Asset tax	956,448	-	1,295,544
Other operating expenses	1,670,577	1,615,746	1,826,180
	5,580,316	4,845,756	6,313,573
Profit before taxation	3,221,644	5,012,027	2,346,912
Taxation	(1,260,521)	(1,036,586)	(866,887)
Profit for the period	1,961,123	3,975,441	1,480,025
Attributable to:-			
Equityholders of the Company	1,939,116	3,914,860	1,454,442
Non-Controlling Interest	22,007	60,581	25,583
Earnings per share (cents)	62	126	47
Return on average equity (annualized)	9.04%	18.77%	7.58%
Return on assets (annualized)	1.77%	3.62%	1.41%
Productivity ratio	64.44%	50.63%	73.94%

Scotia Group Jamaica Limited
Consolidated Statement of Comprehensive Income
Period ended January 31, 2016

Unaudited (\$ Thousands)	For the three months ended		
	January 2016	October 2015	January 2015
Profit for the period	1,961,123	3,975,441	1,480,025
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan / obligations	445,022	1,194,297	176,449
Taxation	(148,341)	(400,130)	(58,816)
	296,681	794,167	117,633
Items that may be subsequently reclassified to profit or loss:			
Unrealised gains on available for sale assets	293,882	294,080	173,347
Realised losses/ (gains) on available for sale assets	7,112	195	(20,760)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivable	-	-	6,203
	300,994	294,275	158,790
Taxation	(38,310)	(80,984)	(25,267)
	262,684	213,291	133,523
Other comprehensive income, net of tax	559,365	1,007,458	251,156
Total comprehensive income for the period	2,520,488	4,982,899	1,731,181
Attributable to:-			
Equityholders of the Company	2,480,790	4,909,579	1,693,156
Non-Controlling Interest	39,698	73,320	38,025

SCOTIA GROUP JAMAICA LTD
Consolidated Statement of Financial Position
January 31, 2016

Unaudited	January 31, 2016	October 31, 2015	January 31, 2015
(\$ Thousands)			
ASSETS			
CASH RESOURCES	81,729,996	79,229,042	87,716,040
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	712,607	844,397	881,333
INVESTMENT SECURITIES	111,721,418	105,436,140	86,925,181
PLEDGED ASSETS	49,438,157	54,040,788	60,554,381
GOVERNMENT SECURITIES PURCHASED UNDER RESALE AGREEMENTS	750,703	150,058	901,727
LOANS, AFTER ALLOWANCE FOR IMPAIRMENT LOSSES	156,348,317	154,499,373	146,250,283
OTHER ASSETS			
Customers' liability under acceptances, guarantees and letters of credit	10,160,889	10,693,915	7,452,913
Property, plant and equipment	5,383,175	5,337,996	5,446,651
Deferred taxation	56,787	29,125	2,163
Taxation recoverable	2,659,559	3,238,782	2,207,029
Retirement benefit asset	17,339,922	16,690,244	11,984,977
Other assets	1,569,781	1,523,568	1,926,325
Intangible assets	1,203,239	1,218,517	1,254,892
	<u>38,373,352</u>	<u>38,732,147</u>	<u>30,274,950</u>
TOTAL ASSETS	439,074,550	432,931,945	413,503,895
LIABILITIES			
Deposits by the public	219,164,816	209,461,602	197,938,246
Amounts due to banks and other financial institutions	11,056,808	11,027,273	15,285,539
	<u>230,221,624</u>	<u>220,488,875</u>	<u>213,223,785</u>
OTHER LIABILITIES			
Acceptances, guarantees and letters of credit	10,160,889	10,693,915	7,452,913
Securities sold under repurchase agreements	34,096,681	39,832,452	41,939,267
Capital management and government securities funds	12,777,966	12,714,643	12,579,668
Deferred taxation	5,787,052	5,531,012	3,774,575
Retirement benefit obligation	2,814,072	2,735,526	3,536,160
Other liabilities	9,809,580	9,095,688	7,137,536
	<u>75,446,240</u>	<u>80,603,236</u>	<u>76,420,119</u>
POLICYHOLDERS' LIABILITIES	43,509,294	43,112,279	43,523,782
STOCKHOLDERS' EQUITY			
Share capital	6,569,810	6,569,810	6,569,810
Reserve fund	3,248,591	3,248,591	3,248,591
Retained earnings reserve	21,591,770	20,591,770	17,591,770
Capital reserve	9,383	9,383	9,383
Loan loss reserve	3,206,971	3,204,491	3,335,845
Other reserves	12,892	12,892	12,892
Cumulative remeasurement result from available for sale assets	420,245	175,252	231,138
Unappropriated profits	51,371,491	51,445,043	45,933,343
	<u>86,431,153</u>	<u>85,257,232</u>	<u>76,932,772</u>
Non-controlling interest	3,466,239	3,470,323	3,403,437
	<u>89,897,392</u>	<u>88,727,555</u>	<u>80,336,209</u>
TOTAL EQUITY AND LIABILITIES	439,074,550	432,931,945	413,503,895

Director

Director

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Changes in Shareholders' Equity
January 31, 2016

Unaudited (\$ Thousands)	Share Capital	Reserve Fund	Retained Earnings Reserve	Cumulative Remeasurement result Capital from Available for Sale Reserves financial assets	Loan Loss Reserve	Other Reserves	Unappropriated Profits	Total	Non-controlling Interest	Total Equity	
Balance as at 31 October 2014	6,569,810	3,248,591	16,591,770	9,383	101,566	3,202,002	12,892	46,748,239	76,484,253	3,409,194	79,893,447
Net Profit	-	-	-	-	-	-	-	1,454,442	1,454,442	25,583	1,480,025
Other Comprehensive Income											
Re-measurement of defined benefit plan/obligations	-	-	-	-	-	-	-	117,633	117,633	-	117,633
Unrealised gains on available-for-sale securities, net of taxes	-	-	-	-	129,942	-	-	-	129,942	13,424	143,366
Realised gains on available-for-sale securities, net of taxes	-	-	-	-	(12,045)	-	-	-	(12,045)	(1,933)	(13,978)
reclassified to loans and receivables	-	-	-	-	3,184	-	-	-	3,184	951	4,135
Total Comprehensive Income	-	-	-	-	121,081	-	-	1,572,075	1,693,156	38,025	1,731,181
Transfers between reserves											
Transfer to Retained Earnings Reserve	-	-	1,000,000	-	-	-	-	(1,000,000)	-	-	-
Transfer to Loan Loss Reserve	-	-	-	-	-	133,843	-	(133,843)	-	-	-
Transfer to Unappropriated Profits	-	-	-	-	8,491	-	-	(8,491)	-	-	-
Dividends Paid	-	-	-	-	-	-	-	(1,244,637)	(1,244,637)	(43,782)	(1,288,419)
Balance as at 31 January 2015	6,569,810	3,248,591	17,591,770	9,383	231,138	3,335,845	12,892	45,933,343	76,932,772	3,403,437	80,336,209
Balance as at 31 October 2015	6,569,810	3,248,591	20,591,770	9,383	175,252	3,204,491	12,892	51,445,043	85,257,232	3,470,323	88,727,555
Net Profit	-	-	-	-	-	-	-	1,939,116	1,939,116	22,007	1,961,123
Other Comprehensive Income											
Re-measurement of defined benefit plan/obligations	-	-	-	-	-	-	-	296,681	296,681	-	296,681
Unrealised gains on available-for-sale securities, net of taxes	-	-	-	-	240,251	-	-	-	240,251	17,691	257,942
Realised losses on available-for-sale securities, net of taxes	-	-	-	-	4,742	-	-	-	4,742	-	4,742
Total Comprehensive Income	-	-	-	-	244,993	-	-	2,235,797	2,480,790	39,698	2,520,488
Transfers between reserves											
Transfer to Retained Earnings Reserve	-	-	1,000,000	-	-	-	-	(1,000,000)	-	-	-
Transfer to Loan Loss Reserve	-	-	-	-	-	2,480	-	(2,480)	-	-	-
Dividends Paid	-	-	-	-	-	-	-	(1,306,869)	(1,306,869)	(43,782)	(1,350,651)
Balance as at 31 January 2016	6,569,810	3,248,591	21,591,770	9,383	420,245	3,206,971	12,892	51,371,491	86,431,153	3,466,239	89,897,392

Scotia Group Jamaica Limited
Condensed Statement of Consolidated Cash Flows
Period ended January 31, 2016

Unaudited (\$ Thousands)	2016	2015
Cash flows provided by / (used in) operating activities		
Profit for the period	1,961,123	1,480,025
Items not affecting cash:		
Depreciation	132,678	128,897
Impairment losses on loans	256,804	344,204
Amortisation of intangible assets	22,169	25,591
Taxation	1,260,521	866,887
Net interest income	<u>(6,232,438)</u>	<u>(6,083,345)</u>
	(2,599,143)	(3,237,741)
Changes in operating assets and liabilities		
Loans	(2,049,510)	(816,799)
Deposits	9,751,569	6,751,017
Policyholders reserve	397,016	214,211
Securities sold under repurchase agreement	(5,694,034)	(5,838,529)
Financial assets at fair value through profit and loss	131,790	97,410
Interest received	7,595,814	7,852,872
Interest paid	(1,334,325)	(1,569,699)
Taxation paid	(939,940)	(587,659)
Amounts with parent and fellow subsidiaries	12,159,909	(1,047,512)
Other	<u>652,301</u>	<u>195,057</u>
	18,071,447	2,012,628
Cash flows provided by / (used in) investing activities		
Investments and pledged assets	(871,952)	(5,567,804)
Repurchase Agreements, net	11,576	-
Purchase of property, plant, equipment and intangibles	<u>(184,748)</u>	<u>(293,635)</u>
	(1,045,124)	(5,861,439)
Cash flows used in financing activities		
Dividends paid	<u>(1,350,651)</u>	<u>(1,288,419)</u>
	(1,350,651)	(1,288,419)
Effect of exchange rate on cash and cash equivalents	(132,443)	567,902
Net change in cash and cash equivalents	15,543,229	(4,569,328)
Cash and cash equivalents at beginning of year	36,354,598	45,384,028
Cash and cash equivalents at end of period	51,897,827	40,814,700
Represented by :		
Cash resources	81,729,996	87,716,040
Less statutory reserves at Bank of Jamaica	(23,362,141)	(21,105,799)
Less amounts due from Bank of Jamaica greater than ninety days	(880,000)	-
Less amounts due from other banks greater than ninety days	(6,056,985)	(25,023,483)
Less accrued interest on cash resources	(37,159)	(112,803)
Pledged assets and repurchase agreements assets less than ninety days	3,416,285	900,000
Cheques and other instruments in transit, net	<u>(2,912,169)</u>	<u>(1,559,255)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	51,897,827	40,814,700

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

January 31, 2016

Unaudited

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	844,321	4,582,634	1,750,857	716,951	995,905	168,096	-	9,058,764
Revenues from other segments	(87,360)	(246,860)	290,381	585	36,911	7,378	(1,035)	-
Total Revenues	756,961	4,335,774	2,041,238	717,536	1,032,816	175,474	(1,035)	9,058,764
Expenses	(326,408)	(3,158,483)	(1,442,899)	(506,070)	(377,535)	(5,505)	(20,220)	(5,837,120)
Profit Before Tax	430,553	1,177,291	598,339	211,466	655,281	169,969	(21,255)	3,221,644
Taxation								(1,260,521)
Profit for the year								1,961,123

Consolidated Balance Sheet

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	118,817,626	100,695,870	71,863,271	68,212,519	57,113,270	21,930,468	(18,749,508)	419,883,516
Unallocated assets								19,191,034
Total Assets								439,074,550
Segment liabilities	451,460	127,161,732	119,708,012	54,057,161	44,254,456	138,424	(10,010,845)	335,760,400
Unallocated liabilities								13,416,758
Total liabilities								349,177,158
Other Segment items:								
Capital Expenditure	-	121,427	57,120	5,374	827	-	-	184,748
Impairment losses on loans	-	334,744	(65,921)	(12,019)	-	-	-	256,804
Depreciation and amortisation	-	85,130	42,881	24,780	2,056	-	-	154,847

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

January 31, 2015

Unaudited

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	869,914	4,149,443	1,663,233	809,080	1,096,792	416,227	-	9,004,689
Revenues from other segments	(87,761)	(247,369)	294,829	4,912	35,042	5,381	(5,034)	-
Total Revenues	782,153	3,902,074	1,958,062	813,992	1,131,834	421,608	(5,034)	9,004,689
Expenses	(290,838)	(3,290,321)	(1,629,940)	(561,474)	(856,108)	(5,845)	(23,251)	(6,657,777)
Profit Before Tax	491,315	611,753	328,122	252,518	275,726	415,763	(28,285)	2,346,912
Taxation								(866,887)
Profit for the year								1,480,025

Consolidated Balance Sheet

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	106,436,641	91,195,560	68,947,991	71,700,808	54,977,637	25,766,970	(19,582,532)	399,443,075
Unallocated assets								14,060,820
Total Assets								413,503,895
Segment liabilities	7,974,894	114,924,074	108,068,410	57,915,622	44,330,666	197,495	(10,967,958)	322,443,203
Unallocated liabilities								10,724,483
Total liabilities								333,167,686
Other Segment items:								
Capital Expenditure	-	176,244	113,609	2,564	1,218	-	-	293,635
Impairment losses on loans	-	311,861	33,388	(1,045)	-	-	-	344,204
Depreciation and amortisation	-	83,131	41,523	27,536	2,298	-	-	154,488

SCOTIA GROUP JAMAICA LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2016

1. Identification

Scotia Group Jamaica Limited (the Company) 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 Company is the parent of The Bank of Nova Scotia Jamaica Limited (100%), Scotia Investments Jamaica Limited (77.01%) and Scotia Jamaica Micro Finance Limited (100%).

2. Basis of presentation

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim financial reporting'. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual audited consolidated financial statements for the year ended October 31, 2015, which was prepared in accordance with International Financial Reporting Standards (IFRS). There were no new and revised IFRS standards that had a material impact on the 2016 interim financial statements.

These financial statements are presented in Jamaican dollars, which is the Group's functional currency.

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. Intra-group transactions, balances, and unrealized gains and losses are eliminated in preparing the consolidated financial statements.

3. Financial Assets

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

Financial Assets at Fair Value through Profit and Loss

This category includes a financial asset acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable.

Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates or equity prices.

Available-for-sale investments and financial assets at fair value through profit and loss are carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of trading securities are included in the statement of revenue and expenses in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in the statement of comprehensive income. Interest calculated using the effective interest method is recognized in the statement of revenue and expenses.

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4. Pledged Assets

Assets are pledged to other financial institutions, regulators, the clearing house and as collateral under repurchase agreements with counterparties.

(\$ Millions)

	<u>2016</u>	<u>2015</u>
Investments pledged as collateral for securities sold under repurchase agreements	31,045	39,046
Capital Management and Government Securities funds	9,963	10,185
Securities with regulators, clearing houses and other financial institutions	<u>8,430</u>	<u>11,323</u>
	<u>49,438</u>	<u>60,554</u>

5. Insurance and investment contracts

Insurance contracts are those contracts that transfer significant insurance risks. Such contracts may also transfer financial risk. 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 is at least 10% more than the benefits payable if the insured event did not occur.

6. Loan loss provision

IFRS loan loss provision is established on the difference between the carrying amount and the recoverable amount of loans. The recoverable amount being the present value of expected future cash flows, discounted based on the interest rate at inception or last repriced date of the loan. Regulatory loan loss provisioning requirements that exceed these amounts are maintained within a loan loss reserve in the equity component of the statement of financial position.

7. Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation.

8. 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.

9. Employee benefits

The Group operates both defined benefit and defined contribution pension plans. 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, taking into account the recommendations of qualified actuaries.

Defined Benefit Plan:

The asset or liability in respect of the defined benefit plan is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of plan assets.

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9. Employee benefits (continued)

Defined Benefit Plan:

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. Re-measurements comprising actuarial gains and losses, return on plan assets and change 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, 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.

Other post-retirement obligations:

The Group also provides supplementary health care and 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.

Defined contribution plan- contributions to this plan are charged to the statement of revenue and expenses in the period to which they relate.

10. Segment reporting

The Group is organized into six main business segments:

- Retail Banking – this incorporates personal banking services, personal deposit accounts, credit and debit cards, customer loans, mortgages and microfinance;
- Corporate and Commercial Banking – this incorporates non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities and foreign currency activities;
- Treasury – this incorporates the Group’s liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency activities;
- Investment Management Services- this incorporates investments, unit trusts, pension and other fund management, brokerage and advisory services, and the administration of trust accounts.
- Insurance Services – this incorporates the provision of life and medical insurance, individual pension administration and annuities;
- Other operations of the Group comprise the parent company and non-trading subsidiaries.

Transactions between the business segments are on normal commercial terms and conditions.

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

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