THE SCOTIA JAMAICA BUILDING SOCIETY

FINANCIAL STATEMENTS

OCTOBER 31, 2021

KPMG
Chartered Accountants
P.O. Box 436
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Scotia Jamaica Building Society ("the Society"), set out on pages 5 to 51, which comprise the statement of financial position as at October 31, 2021, the statements of profit or loss and other 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 Society as at October 31, 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Society 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

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 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 Society'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 Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society'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.

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on the Audit of the Financial Statements (Continued)

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

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

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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on additional matters as required by the Building Societies 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.

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 2,500 held in respect of mortgage loans were produced to us and actually inspected by us and we are satisfied that the remaining deeds not inspected by us were in the hands of attorneys or elsewhere in the normal course of business of the Society.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, are duly vouched in accordance with law.

KPMG

Chartered Accountants
Kingston, Jamaica

December 15, 2021

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Profit or Loss and Other Comprehensive Income
Year ended October 31, 2021
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2021	2020
Net interest income and other revenue			
Interest income, calculated using the effective interest method	4	1,696,082	1,993,333
Interest expense	4	(138,805)	(349,700)
Net interest income	4	1,557,277	1,643,633
Expected credit losses	[21(a)(iii)]	(56,872)	(98,989)
Net interest income after expected credit losses		1,500,405	1,544,644
Net foreign exchange losses		(2)	(972)
Fee and commission income	5	27,864	36,106
Gain on extinguishment of liabilities	14	494,098	963,777
		2,022,365	2,543,555
Expenses			
Salaries, pension plan contributions and other staff benefits	6	73,218	79,802
Property expenses, including depreciation	7	17,112	15,461
Asset tax	7	54,187	57,354
Other operating expenses	7	92,123	101,212
Brokerage commission	7,14	75,482	146,518
Total non-interest expenses	7	312,122	400,347
Profit before taxation	8	1,710,243	2,143,208
Taxation	9	(529,329)	(660,168)
Profit, being total comprehensive income for the year		1,180,914	1,483,040

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

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Financial Position
October 31, 2021
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2021	2020
ASSETS			
Cash resources			
Cash and balances with Bank of Jamaica		1,582,608	1,581,283
Bank current account with parent	10	2,128,999	2,249,586
	10	3,711,607	3,830,869
Loans, net of allowance for expected credit losses	11	20,230,249	23,283,149
Other assets			
Customers' liabilities under mortgage commitments		-	12,837
Deferred tax assets	15	76,787	-
Property, plant and equipment	12	17,692	18,689
Other receivables		7,888	7,302
Amount due from parent company		-	3,743
		102,367	42,571
		24,044,223	27,156,589

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

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Financial Position (Continued)
October 31, 2021
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2021	2020
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits by the public	13	7,861,736	8,133,120
Amounts due to other financial institutions	14	993,153	4,835,747
Other liabilities			
Mortgage commitments		-	12,986
Taxation payable		126,672	280,608
Amount due to parent		1,197	-
Deferred tax liabilities	15	-	24,738
Other payables	16	53,036	41,875
		180,905	360,207
		9,035,794	13,329,074
Shareholders' equity			
Share capital	17	70,000	70,000
Reserve fund	18	229,250	229,250
Retained earnings reserve	19	4,950,750	4,950,750
Loan loss reserve	20	-	231,724
Unappropriated profits		9,758,429	8,345,791
		15,008,429	13,827,515
		24,044,223	27,156,589

The financial statements on pages 5 to 51 were approved for issue by the Board of Directors on December 6, 2021 and signed on its behalf by:

_________________________ Director
Audrey Tugwell Henry

_________________________ Director
Barbara Alexander

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

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Changes in Equity
Year ended October 31, 2021
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Number of shares	Share capital (Note 17)	Reserve fund (Note 18)	Retained earnings reserve (Note 19)	Loan loss reserve (Note 20)	Unappropriated profits	Total
Balances at October 31, 2019	70,000	70,000	229,250	4,950,750	362,199	6,732,276	12,344,475
Movement between reserves:							
Transfer from loan loss reserve	-	-	-	-	(130,475)	130,475	-
Total comprehensive income for the year:							
Profit for the year, being total comprehensive income	-	-	-	-	-	1,483,040	1,483,040
Balances at October 31, 2020	70,000	70,000	229,250	4,950,750	231,724	8,345,791	13,827,515
Movement between reserves:							
Transfer from loan loss reserve	-	-	-	-	(231,724)	231,724	-
Total comprehensive income for the year:							
Profit for the year, being total comprehensive income	-	-	-	-	-	1,180,914	1,180,914
Balances at October 31, 2021	**70,000**	**70,000**	**229,250**	**4,950,750**	-	**9,758,429**	**15,008,429**

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

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Cash Flows
Year ended October 31, 2021
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2021	2020
Cash flows from operating activities			
Profit for the year		1,180,914	1,483,040
Adjustments for:			
Depreciation	12	1,715	1,535
Expected credit losses	[21(a)(iii)]	56,872	98,989
Gain on extinguishment of liabilities	14	(494,098)	(963,777)
Income tax expense	9	529,329	660,168
		1,274,732	1,279,955
Interest income	4	(1,696,082)	(1,993,333)
Interest expense	4	138,805	349,700
		(282,545)	(363,678)
Changes in operating assets and liabilities:			
Deposits by the public		(265,433)	(263,747)
Deposits with other financial institutions		672	410
Deposits by parent and fellow subsidiaries		(2,070,629)	1,100,350
Loans		2,874,925	2,382,950
Amounts due to other financial institutions		(1,270,538)	(2,686,400)
Cash reserves at Bank of Jamaica		(1,572)	18,311
Other liabilities		(628)	(115,496)
Other assets		16,143	114,471
		(999,605)	187,171
Interest received		1,816,148	1,778,761
Interest paid		(152,086)	(389,169)
Income tax paid		(784,790)	(571,875)
Net cash (used in)/provided by operating activities		(120,333)	1,004,888
Cash flows from investing activity			
Purchase of property, plant and equipment, being net cash used by investing activity	12	(718)	(797)
Effect of exchange rate fluctuation on cash and cash equivalents		(672)	(410)
Net (decrease)/increase in cash and cash-equivalents		(121,723)	1,003,681
Cash and cash-equivalents at beginning of year		3,730,216	2,726,535
Cash and cash-equivalents at end of year	10	3,608,493	3,730,216

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

1. Identification, regulation and licence

The Scotia Jamaica Building Society ("the Society"), which is domiciled in Jamaica, was incorporated under the Building Societies Act on June 24, 1993 and commenced operations in September 1994. The Society is a wholly-owned subsidiary of The Bank of Nova Scotia Jamaica Limited ("the Bank"), which is in turn a 100% subsidiary of Scotia Group Jamaica Limited. Both of these companies are incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotia 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 Society is located at 95 Harbour Street, Kingston, Jamaica.

The principal activities are the acceptance of customers' deposits and financing of mortgages. The Society is licensed under the Building Societies Act (as amended by the Banking Services Act, 2014) and the Banking Services Regulations, 2015.

The licence requires, *inter alia*, that:

(a) 10% of profit for the year be transferred annually to a reserve fund until the amount in the reserve fund is equal to the total amount paid up on its capital shares and its deferred shares;

(b) 1% of savings funds be maintained as a cash reserve placed on deposit with the Bank of Jamaica (BOJ) provided that the value of qualifying assets is at least 40% of deposit liabilities; and

(c) Liquid assets be 5% of savings fund provided that the value of qualifying assets is at least 40% of deposit liabilities.

2. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the relevant provisions of the Building Societies Act and the Banking Services Act.

Amended standards that became effective during the year

Certain new and amended standards came into effect during the current financial year. The Society has assessed them and has adopted those which are relevant to its 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.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

Amended standards that became effective during the year (continued)

Certain new and amended standards came into effect during the current financial year. The Society has assessed them and has adopted those which are relevant to its financial statements (continued):

(i) *Amendments to References to Conceptual Framework in IFRS* (continued)

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

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

- A liability will be recognised if a company has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.

- A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

(ii) 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.

"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."

(iii) Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, effective for annual accounting periods beginning on or after January 1, 2020, address issues affecting financial reporting in the period leading up to interbank offered rates (IBOR) reform. The first phase amendments apply to all hedging relationships directly affected by uncertainties related to IBOR reform. The entity is required to:

Assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of IBOR reform when assessing whether the future cash flows are highly probable.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

Amended standards that became effective during the year (continued)

(iii) Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* (continued):

- Assess whether the economic relationship between the hedged item and the hedging instrument exists based on the assumptions that the interest rate benchmark is not altered as a result of IBOR reform.

- Not discontinue a hedging relationship during the period of uncertainty arising from IBOR reform solely because the actual results of the hedge are outside the range of 80-125 per cent.

- Apply the separately identifiable requirement only at the inception of the hedging relationship.

- Prospectively cease applying the exceptions at the earlier of when the uncertainty regarding the timing and the amount of interest rate benchmark based cash flows is no longer present; and discontinuation of the hedging relationship (or reclassification of all amounts from the cash flow hedge reserve).

New and revised 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 Society has not early adopted them:

(i) Amendments to IFRS 9 *Financial Instruments*, IAS *39 Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance contracts* and IFRS 16 *Leases*, is effective for annual accounting periods beginning on or after January 1, 2021 and address issues affecting financial reporting in the period leading up to interbank offered rates (IBOR) reform. The second phase amendments apply to all hedging relationships directly affected by IBOR reform. The amendments principally address practical expedient for modifications. A practical expedient has been introduced where changes will be accounted for by updating the effective interest rate if the change results directly from IBOR reform and occurs on an 'economically equivalent' basis. A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform. In these instances, a revise discount rate that reflects the change in interest rate will be used in remeasuring the lease liability.

The amendments also address specific relief from discontinuing hedging relationships as well as new disclosure requirements.

The Society does not expect the amendment to have a significant impact on its 2022 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

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

(ii) *Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9, Financial Instruments, IFRS 16 Leases* and are effective for annual reporting periods beginning on or after January 1, 2022.

(a) IFRS 9 *Financial Instruments,* amendment clarifies that – for the purpose of performing the 10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

(b) IFRS 16 *Leases,* amendment removes the illustration of payments from the lessor relating to leasehold improvements.

The Society does not expect the amendment to have a significant impact on its 2023 financial statements.

(iii) Amendments to IAS 37 *Provision, Contingent Liabilities and Contingent Assets* is effective for annual periods beginning on or after January 1, 2022 and for the purpose of assessing whether a contract is onerous, clarifies those costs that comprise the costs of fulfilling the contract.

This clarification will require entities that apply the 'incremental cost' approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

The Society does not expect the amendment to have a significant impact on its 2023 financial statements.

(iv) Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and, instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

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

(iv) Amendments to IAS 1 *Presentation of Financial Statements (continued):*

It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

With the amendments, convertible instruments may become current. In light of this, the amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that a company can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

The Society does not expect the amendment to have a significant impact on its 2024 financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates based on assumptions and judgements. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Society's functional currency. Except where otherwise indicated, financial information presented in Jamaican dollars has been rounded to the nearest thousand.

(b) Revenue recognition

Interest income

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

2. Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

Interest income (continued)

When calculating the effective interest rate for financial instruments, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (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 effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

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

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

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

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

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

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

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the Building Societies Regulations stipulate that interest should be taken into account on the cash basis.

The difference between the amounts recognised under the banking regulations and such amounts as would have been determined under IFRS is considered to be immaterial.

Fee and commission income

Fee and commission income from contracts with customers are recognised when the performance obligations are satisfied and is measured based on the consideration specified in a contract with a customer.

2. Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

Fee and commission income (continued)

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

A contract with a customer that results in a recognised financial instrument in the Society'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 Society 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.*
Financial transaction fees	The Society provides banking related services, including execution of customers' transactions and loan processing. Fees for ongoing account management are charged to the customer's account on a monthly basis. Loan originating fees are charged based on a fixed rate determined by the Society.	Revenue from account services and servicing fees are recognised over time as the services are provided. Loan origination fees are recognised at a point in time once the transaction is completed.

(c) Interest expense

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

(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.

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains/losses resulting from fluctuations in exchange rates are recognised in profit or loss.

2. Summary of significant accounting policies (continued)

(e) Taxation

Taxation expense comprises current and deferred income tax charges. Current and deferred income taxes are recognised as tax expense or benefit in profit or loss and other comprehensive income.

Current income tax charges are based on 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 Society's liability for current tax is calculated at tax rates that have been enacted as at the reporting date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates as at the reporting date are used in the determination of deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be realised.

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

(f) Financial assets and liabilities

Financial assets comprise cash resources, loans and certain other assets. Financial liabilities comprise deposits, amounts due to other financial institutions and certain other liabilities.

Recognition

The Society 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 are initially recognised on the settlement date – the date on which the asset is delivered to or by the Society.

Classification and measurement

Classification and measurement of financial assets

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

- Amortized cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL);

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

Classification and measurement (continued)

Debt instruments

Debt instruments, including cash resources and loans, are classified and measured at amortised cost.

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 Society's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.

- Held to collect and for sale: Both collecting contractual cashflows and sales are integral to achieving the objectives of the business model.

- Other business model: this business model is neither held-to-collect nor held-to-collect and for sale. The Society assesses business model at a portfolio level and reflects how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, the Society takes into consideration the following factors:

  - How the performance of assets in a portfolio is evaluated and reported to division heads and other key decision makers within the Society's business lines;

  - How compensation is determined for the Society's business lines' management that manages the assets;

  - 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.

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

Classification and measurement (continued)

Contractual cash flow characteristics assessment

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

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

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

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

Debt instruments measured at amortized cost

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognised in interest income using the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized 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.

Classification *and measurement of financial liabilities*

The Society's financial liabilities are classified and measured at amortised cost. These financial liabilities include amounts due to other financial institutions, and certain other financial liabilities. Interest on deposits, calculated using the effective interest rate method, is recognised as interest expense.

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

Derecognition

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 Society 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 Society 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 Society 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 Society derecognizes 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 Society retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement.

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 statement of profit or loss and other comprehensive Income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled 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 statement of profit or loss and other comprehensive income.

(g) Allowance for expected credit losses

The Society 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:

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

- Amortised cost financial assets; and

- Off-balance sheet loan commitments.

Expected credit loss impairment model

The Society's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

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

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument. 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. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Measurement of expected credit loss

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

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

Measurement of expected credit loss (continued)

Details of these statistical parameters/inputs are as follows (continued):

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

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

Macroeconomic factors

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

The 'base case' represents the most likely outcome and is aligned with information used by the Society for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Society 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.

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

Assessment of significant increase in credit risk (SIR)

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

The common assessments for SIR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook.

The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

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

Expected life

When measuring expected credit loss, the Society considers the maximum contractual period over which the Society is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Presentation of allowance for expected 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; and

- Letters of credit and letters of guarantee: as a deduction from the gross carrying amounts.

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

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

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

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 profit or loss and other comprehensive income.

Definition of default

The Society 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 Society 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.

2. Summary of significant accounting policies (continued)

(g) Allowance for expected credit losses (continued)

Write-off policy

The Society writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the statement of profit or loss and other comprehensive income.

Statutory and other regulatory loan loss reserve requirements

General provisions for doubtful credits are established against the loan portfolio in respect of the Society's core business lines where a prudent assessment by the Society of adverse economic trends suggests that losses may occur, but where such losses cannot yet be determined on an item-by-item basis. The Supervisor requires that such provision should not be less than 0.5% of the aggregate dollar value for certain residential mortgages for current year and not less than 1% of the aggregate dollar value for all other credits.

Statutory and other regulatory loan loss reserve requirements that exceed the amounts determined under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits (note 20).

(h) Mortgage commitments

The Society's potential liability under mortgage commitments, that is, irrevocable commitments to make loans under mortgages, is reported as a liability in the statement of financial position. The Society has equal and offsetting claims against its customers, in the event of a call on these commitments, which are reported as an asset.

(i) Property, plant and equipment

Land is measured at historical cost. All property, plant and equipment are recorded at historical cost less accumulated depreciation and, if any, impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated on the straight-line method at rates estimated to write-down the depreciable amounts of the assets to their residual values over their expected useful lives, as follows:

Freehold buildings	40 years
Furniture, fixtures and equipment	10 years
Computer equipment	4 years
Office machines	5 years

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

2. Summary of significant accounting policies (continued)

(i) Property, plant and equipment (continued)

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 amounts and are taken into account in determining profit or loss for the year. Repairs and renewals are charged off as expenses when the expenditure is incurred.

(j) Pension plan

The employees of the Society participate in the defined-benefit pension plan of the Society's parent company. The Society's contribution to the plan is at a fixed percentage of pensionable salaries. Once the contributions have been paid, the Society has no further legal or constructive obligations (note 24). Obligations for contributions to the plan are charged to the statement of profit or loss and other comprehensive income in the period to which they relate.

(k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash-equivalents include notes and coins on hand, unrestricted balances held with Bank of Jamaica, amounts due from other financial institutions, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value, and are used by the Society in the management of its short-term commitments, rather than for investment or other purposes.

Cash and cash-equivalents are measured at amortised cost.

(l) Related parties

Definition of related party:

A related party is a person or entity that is related to the Society ("reporting entity").

(a) A person or a close member of that person's family is related to the Society if that person:

- (i) has control or joint control over the Society;
- (ii) has significant influence over the Society; or
- (iii) is a member of the key management personnel of the Society or of a parent of the Society.

(b) An entity is related to the Society if any of the following conditions applies:

- (i) The entity and the Society are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

2. Summary of significant accounting policies (continued)

(l) Related parties (continued)

(b) An entity is related to the Society if any of the following conditions applies (continued):

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Society or an entity related to the Society.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Society or to the parent of the Society.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

3. Critical accounting estimates and judgements in applying accounting policies

The Society makes estimates and assumptions that affect the amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements, and may be reported in 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. The significant item most affected by assumptions and judgements is as follows:

Expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost 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 11 (c) and 21 (a), 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 (ECL), such as:

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

Detailed information about the judgements and estimates made by the Society in the above area is set out in notes 2(g), 11(c) and 21(a).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

4. Net interest income

	2021	2020
Interest income calculated using the effective interest method:		
Certificates of deposit with Bank of Jamaica	8,567	9,315
Loans	1,673,139	1,964,140
Resale agreements	170	562
Other	14,206	19,316
	1,696,082	1,993,333
Interest expense:		
Customers and other financial institutions	(138,805)	(349,700)
	(138,805)	(349,700)
Net interest income	1,557,277	1,643,633

5. Fee and commission income

	2021	2020
Credit related fees	18,101	11,441
Retail banking fees	9,763	24,665
	27,864	36,106

6. Salaries, pension plan contributions and other staff benefits

	2021	2020
Wages and salaries	64,519	67,940
Statutory payroll contributions	3,714	4,222
Pension plan contributions and other staff benefits	4,985	7,640
	73,218	79,802

7. Expenses by nature

	2021	2020
Salaries, pension plan contribution and other staff benefits (note 6)	73,218	79,802
Property expenses, including depreciation	17,112	15,461
Systems related expenses	26,181	27,097
Transportation and communication	1,993	1,406
Marketing and advertising	65	-
Professional, legal and consulting fees	14,388	29,452
Technical and support services	19,542	16,158
Asset tax	54,187	57,354
Licencing and fees paid to regulators	5,432	5,712
Deposit insurance	18,344	19,130
Stationery	454	685
Brokerage commission (note 14 (a))	75,482	146,518
Other operating expenses	5,724	1,572
	312,122	400,347

(Expressed in thousands of Jamaican dollars unless otherwise stated)

8. Profit before taxation

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

	2021	2020
Audit fees	7,461	6,205
Depreciation (note 12)	1,715	1,535
Directors' fees	1,532	1,532

9. Taxation

(a) The charge is computed on the profit for the year as adjusted for tax purposes, and is made up as follows:

	2021	2020
Current income tax:		
Income tax at 30%	630,854	672,242
Deferred income tax (note 15)	(101,525)	(12,074)
	529,329	660,168

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

	2021	2020
Profit before taxation	1,710,243	2,143,208
Tax calculated at 30%	513,073	642,962
Expenses not deductible for tax purposes	18,843	19,722
Other charges and allowances	(2,587)	(2,516)
	529,329	660,168

10. Cash and cash equivalents

(a) Cash reserves at Bank of Jamaica represent funds which have been deposited at Bank of Jamaica [note 1(b)]. This amount is held under Section 43 of the Banking Services Act, 2014, substantially on a non-interest-bearing basis and is not available for investment or other use by the Society.

(b) The bank current account balance is held with the Society's parent, The Bank of Nova Scotia Jamaica Limited.

(c) Cash and cash equivalents are as follows:

	2021	2020
Cash resources	3,711,607	3,830,869
Less: amounts not considered as cash and cash equivalents		
Statutory reserves	(101,877)	(100,308)
Accrued interest	(1,257)	(365)
Allowances for credit losses	20	20
	3,608,493	3,730,216

(Expressed in thousands of Jamaican dollars unless otherwise stated)

10. Cash and cash equivalents (continued)

(c) Cash and cash equivalents are as follows (continued):

	2021	2020
Cash and cash equivalents is comprised of:		
Balances with Bank of Jamaica other than statutory reserves	1,480,751	1,480,995
Accounts with parent	2,128,999	2,249,586
Accrued interest	(1,257)	(365)
	3,608,493	3,730,216

11. Loans, net of allowance for expected credit losses

	2021	2020
Residential mortgages	20,399,731	23,328,215
Interest receivable	301,266	422,224
	20,700,997	23,750,439
Less: Allowance for expected credit losses [note 11(c)]	(470,748)	(467,290)
Loans, net allowance for credit losses	20,230,249	23,283,149

(a) The aging of the loans at the reporting date was as follows:

	2021	2020
Neither past due nor impaired	16,210,626	18,037,114
Past due but not impaired		
Past due 0-30 days	3,014,503	3,920,659
Past due 31-60 days	397,761	561,784
Past due 61-90 days	76,946	158,054
	3,489,210	4,640,497
Past due and impaired		
Past due more than 90 days	699,895	650,604
Interest receivable	301,266	422,224
Gross loan portfolio	20,700,997	23,750,439
Less: Allowance for expected credit losses [note 11(c)]	(470,748)	(467,290)
Loans, net allowance for credit losses	20,230,249	23,283,149

There are no financial assets other than those listed above that were individually impaired.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

11. Loans, net of allowance for expected credit losses (continued)

(b) Repossessed collateral:

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, repossessed properties are not utilised for business use. The Society has no repossessed collateral as at the reporting date.

(c) Allowance for expected credit losses:

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

Some of the key drivers include the following:

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

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

The following table shows the movement in expected credit losses on loans and receivables during the year

	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance at beginning of the year	89,815	127,869	249,606	467,290
Provided during the year	(118,470)	85,462	101,052	68,044
Bad debts written off	-	-	(64,586)	(64,586)
Transfer to/(from) stages				
Stage 1	148,328	(14,064)	(134,264)	-
Stage 2	(59,316)	158,552	(99,236)	-
Stage 3	(4,735)	(175,478)	180,213	-
Allowance at end of year [note 21 (a)(iii)]	55,622	182,341	232,785	470,748
Provided during the year	(118,470)	85,462	101,052	68,044
Recoveries of bad debts	-	-	(11,027)	(11,027)
Expected credit losses reported in profit for the year	(118,470)	85,462	90,025	57,017

THE SCOTIA JAMAICA BUILDING SOCIETY

Notes to the Financial Statements (Continued)
October 31, 2021
(Expressed in thousands of Jamaican dollars unless otherwise stated)

11. Loans, net of allowance for expected credit losses (continued)

(c) Allowance for expected credit losses:

	2020			
	Stage 1	Stage 2	Stage 3	Total
Allowance at beginning of the year	64,123	164,872	193,769	422,764
Provided during the year	(46,305)	(77,088)	194,426	71,033
Bad debts written off	-	-	(26,507)	(26,507)
Transfer to/(from) stages				
Stage 1	79,899	(59,864)	(20,035)	-
Stage 2	(7,868)	145,760	(137,892)	-
Stage 3	(34)	(45,811)	45,845	-
Allowance at end of year [note 21 (a)(iii)]	89,815	127,869	249,606	467,290
Provided during the year	(46,305)	(77,088)	194,426	71,033
Recoveries of bad debts	-	-	(27,983)	(27,983)
Expected credit losses reported in profit for the year	(46,305)	(77,088)	166,443	43,050

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

	2021	2020
Allowance based on IFRS [see (i) below]	470,748	467,290
Additional allowance based on BOJ regulations [see (ii) below]	-	231,724
	470,748	699,014

(i) This is the allowance based on the requirement of IFRS 9 *Financial Instruments.*

(ii) This represents the additional allowance to meet the Bank of Jamaica loan loss provisioning requirement. A non-distributable loan loss reserve was established to represent the excess of the provision required by BOJ over the IFRS 9 requirements (note 20).

(d) Collateral and other credit enhancements held against loans:

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

The Society holds collateral against credits to borrowers primarily in the form of real estate. 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 is $20,399,731 (2020: $23,341,052).

THE SCOTIA JAMAICA BUILDING SOCIETY

Notes to the Financial Statements (Continued)
October 31, 2021
(Expressed in thousands of Jamaican dollars unless otherwise stated)

11. Loans, net of allowance for expected credit losses (continued)

(e) Uncollected interest not accrued in the financial statements on impaired loans is estimated at $156,818 (2020: $168,024).

(f) The expected maturities of loans, net of allowances for expected credit losses are as follows:

	2021	2020
Within 3 months	118,867	275,210
3 months to 1 year	818,779	882,825
1 to 5 years	4,097,496	4,413,422
5 years and over	15,195,107	17,711,692
	20,230,249	23,283,149

12. Property, plant and equipment

	Freehold Land & Buildings	Furniture, Fixtures & Equipment	Computer Equipment	Office Machines	Total
Cost:					
October 31, 2019	32,261	16,924	10,238	1,048	60,471
Additions	-	-	797	-	797
October 31, 2020	32,261	16,924	11,035	1,048	61,268
Additions	-	-	718	-	718
October 31, 2021	32,261	16,924	11,753	1,048	61,986
Depreciation:					
October 31, 2019	14,510	15,661	9,825	1,048	41,044
Charge for the year	687	442	406	-	1,535
October 31, 2020	15,197	16,103	10,231	1,048	42,579
Charge for the year	687	442	586	-	1,715
October 31, 2021	15,884	16,545	10,817	1,048	44,294
Net book values:					
October 31, 2021	16,377	379	936	-	17,692
October 31, 2020	17,064	821	804	-	18,689
October 31, 2019	17,751	1,263	413	-	19,427

13. Deposits by the public

	2021	2020
Personal	7,476,433	7,727,495
Other	371,648	386,019
Accrued interest	13,655	19,606
	7,861,736	8,133,120

(Expressed in thousands of Jamaican dollars unless otherwise stated)

14. Amounts due to other financial institutions

	2021	2020
Deposits by parent and fellow subsidiaries	988,699	3,059,328
Amounts due to National Housing Trust [note 14(a)]	-	1,764,635
Accrued interest	4,454	11,784
	993,153	4,835,747

(a) On September 29, 2020, the Society entered into an agreement with the National Housing Trust for early extinguishment of its existing Joint Finance Mortgage programme liabilities at a discount. The first tranche, comprising liabilities with a book value of $3,430,015, was settled on September 30, 2020 resulting in a gain of $963,777. The second tranche under the agreement comprising liabilities with book value of $1,764,635, was settled on November 2, 2020, resulting in a gain of $494,098. Arising from these transactions, brokerage commission totalling $75,482 (2020: $146,518) was paid to Scotia Investment Jamaica Limited.

15. Deferred tax assets and liabilities

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 30%.

The movement on the deferred tax account is as follows:

	2021	2020
Balance at beginning of year	(24,738)	(36,812)
Recognised in profit or loss [note 9(a)]	101,525	12,074
Balance at end of year	76,787	(24,738)

Net deferred tax assets/(liabilities) are attributable to the following items:

	2021	2020
Outstanding vacation leave	2,072	2,055
Accelerated tax depreciation	1,010	791
Allowance for loan impairment	73,705	(27,584)
	76,787	(24,738)

The deferred tax charged in the statement of profit or loss and other comprehensive income for the year comprises tax arising from the following temporary differences:

	2021	2020
Outstanding vacation leave	(219)	(605)
Accelerated tax depreciation	(17)	(198)
Allowance for loan impairment	(101,289)	(11,271)
	(101,525)	(12,074)

16. Other payables

	2021	2020
Accrued vacation (note 16(a))	6,908	6,852
Other accrued liabilities	46,128	35,023
	53,036	41,875

(Expressed in thousands of Jamaican dollars unless otherwise stated)

16. Other payables (continued)

(a) The movement on accrued vacation leave included in other payables is as follows:

	2021	2020
At beginning of year	6,852	4,832
Provided during the year	6,908	6,852
Utilised during the year	(6,852)	(4,832)
At end of year	6,908	6,852

17. Share capital

	2021	2020
Authorised, issued and fully paid:		
70,000 (2020: 70,000) proprietary shares of $1,000 each	70,000	70,000

The Rules of the Society provide five classes of shares which the Directors may issue, but empower them to create additional classes of shares, and to issue shares at any value per share that they determine. At the reporting date, only proprietary shares have been issued. The proprietary shares are not withdrawable, and entitle the members holding them to:

- interest at such rates, payable at such intervals, as the Directors may determine;
- a pro rata share in the undistributed profits and the reserves (other than the doubtful debt appropriation account and the bonus account) of the Society;
- attend and vote at meetings of members of the Society, having one vote for each share held.

18. Reserve fund

	2021	2020
As at October 31	229,250	229,250

Section 41 of the Banking Services Act, 2014 requires the Society to make a transfer of at least 10% of its net profit, depending on the circumstances, to the reserve fund until the amount in the fund is equal to the total of the amount paid up on its capital shares and the amount of its deferred shares. No transfers were made during the year as the Society has surpassed the required statutory level.

19. Retained earnings reserve

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. During the financial year there was no transfer to or reversal from the reserve (2020: $Nil).

20. Loan loss reserve

The loan loss reserve represents the excess of the BOJ loan loss provision over IFRS 9 requirements, and is non-distributable [see note 11(c)].

21. Financial risk management

The Society's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the Society by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

The Society's activities are principally related to the use of financial instruments. Therefore, this will involve analysis, evaluation and management of some degree of risk or a combination of risks. The Society's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Society manages risk through a framework of risk principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the activities of the business unit. The Society's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. Management 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 Society's risk management framework.

The Society manages its risk through the Asset and Liability Committee (ALCO), which carries out extensive research and monitors the price movement of securities on the local and international markets. ALCO has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors; it meets at least once monthly to review risks, evaluate performance and provide strategic direction.

It also reviews investments, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Society's investment and loan portfolios and that appropriate limits are being adhered to.

The most important types of risk for the Society are credit risk, market risk and liquidity risk.

(a) Credit risk:

(i) Management of credit risk

The Society takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred and expected to be incurred at the reporting date. However, significant negative changes in the economy, industry segment that represent a concentration in the Society's loan portfolio, or positions in tradable assets, could result in losses that are different from those provided for at the reporting date.

At a strategic level, the Society 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. Limits on the level of credit risk by product and industry sector are approved quarterly 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.

21. Financial risk management (continued)

(a) Credit risk (continued):

(i) Management of credit risk (continued)

Operationally, the exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. The principal collateral types for loans are charges over residential properties.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Society's policy requires the review of individual financial assets that are above specified thresholds at least annually or more regularly when individual circumstances require. Impairment allowances are consistent with policies noted in [note 2(g)].

The assessment normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for:

(1) portfolios of homogenous assets; and

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

(ii) Mortgage commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Mortgage commitments which represent irrevocable assurances that the Society will make payments on behalf of a customer to complete a mortgage transaction, carry the same credit risk as loans.

(iii) Credit quality

In measuring credit risk at the counterparty level, the loans are risk-rated based on an internal scoring system which combines statistical analysis with credit officer judgement. Internal grades (IG) are used to differentiate the risk of default of the borrower, and fall within the following categories:

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

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21. Financial risk management (continued)

(a) Credit risk (continued):

(iii) Credit quality (continued)

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. For loan commitments, the amounts in the table represent the amounts committed.

Loans and notes receivable at amortised cost (note 11):

	2021			
	Stage 1	Stage 2	Stage 3	Total
Category of PD Grade				
Low	16,695,871	7,478	-	16,703,349
Medium	989,021	14,592	-	1,003,613
High	133,277	1,688,537	-	1,821,814
Very High	-	582,275	-	582,275
Subtotal: PD Grades (Advanced Models)	17,818,169	2,292,882	-	20,111,051
Loans not graded (Intermediate or simplified or gross-up)	(74,647)	(35,302)	-	(109,949)
Default	-	-	699,895	699,895
Total	17,743,522	2,257,580	699,895	20,700,997
Expected credit loss allowance [note 11(c)]	(55,622)	(182,341)	(232,785)	(470,748)
Carrying Amounts	17,687,900	2,075,239	467,110	20,230,249

	2020			
	Stage 1	Stage 2	Stage 3	Total
Category of PD Grade				
Low	19,559,407	33,267	-	19,592,674
Medium	2,508,082	64,175	-	2,572,257
High	108,064	1,438,176	-	1,546,240
Very High	-	321,490	-	321,490
Subtotal: PD Grades (Advanced Models)	22,175,553	1,857,108	-	24,032,661
Loans not graded (Intermediate or simplified or gross-up)	(762,273)	(170,553)	-	(932,826)
Default	-	-	650,604	650,604
Total	21,413,280	1,686,555	650,604	23,750,439
Expected credit loss allowance [note 11(c)]	(89,815)	(127,869)	(249,606)	(467,290)
Carrying Amounts	21,323,465	1,558,686	400,998	23,283,149

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(a) Credit risk (continued):

(iii) Credit quality (continued)

	2021 Stage 1	2020 Stage 1
Customer's liabilities under mortgage commitments	-	12,837

During the year, the Society reported expected credit losses in profit or loss of $56,872 (2020: $98,989). Expected credit losses are reported on loans of credit $7,569 (2020: $43,050) with bad debts written off of $64,586 (2020: $26,507), modification losses on loans $nil (2020: $30,901), customers' liabilities and mortgage commitments credit $148 (2020: $1,337) and deposits with Bank of Jamaica $3 (2020: credit $132).

If the Society's rating scale was done using the *Bank of Jamaica Credit Classification, Provisioning and Non-Accrual Requirements*, the credit profile of the Society would be as follows:

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 Society'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.

21. Financial risk management (continued)

(a) Credit risk (continued):

(iii) Credit quality (continued)

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31:

	2021	2020
BB to B-	1,480,731	1,480,974
Classified as follows:		
Cash resources:		
Deposits with Bank of Jamaica (note 10)	1,480,731	1,480,974

(iv) Maximum exposure to credit risk

The maximum exposure to credit risk is assessed without taking account of any collateral held or other credit enhancements. For the Society's financial assets, the exposure to credit risk equals their carrying amount. For mortgage 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.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, both of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices, such as interest rates and foreign exchange rates.

The market risks relevant to the Society are interest rate and foreign exchange risks, which are discussed below:

(i) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Society takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position, profit or loss and cash flows. Interest margins may increase, may reduce or create losses in the event that unexpected movements arise. The Society monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

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21. Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

The following table summarises carrying amounts of assets, liabilities and shareholders' equity, in order to arrive at the Society's interest rate gap based on the earlier of contractual repricing and maturity dates.

	2021						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	2,128,999	1,480,000	-	-	-	102,608	3,711,607
Loans, after allowance for impairment losses (1)	16,582,249	1,052,427	1,928,239	125,653	11,268	530,413	20,230,249
Other assets (2)	-	-	-	-	-	102,367	102,367
Total assets	18,711,248	2,532,427	1,928,239	125,653	11,268	735,388	24,044,223
Deposits by the public	3,833,883	1,645,800	1,603,210	765,188	-	13,655	7,861,736
Amounts due to other financial institutions	-	988,699	-	-	-	4,454	993,153
Other liabilities (2)	-	-	-	-	-	180,905	180,905
Shareholders' equity	-	-	-	-	-	15,008,429	15,008,429
Total liabilities and shareholders' equity	3,833,883	2,634,499	1,603,210	765,188	-	15,207,443	24,044,223
Total interest rate sensitivity gap	14,877,365	(102,072)	325,029	(639,535)	11,268	(14,472,055)	-
Cumulative gap	14,877,365	14,775,293	15,100,322	14,460,787	14,472,055	-	-

	2020						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	2,249,951	1,479,656	-	-	-	101,262	3,830,869
Loans, after allowance for impairment losses (1)	18,875,922	1,327,277	1,980,949	529,134	15,766	554,101	23,283,149
Other assets (2)	-	-	-	-	-	42,571	42,571
Total assets	21,125,873	2,806,933	1,980,949	529,134	15,766	697,934	27,156,589
Deposits by the public	3,496,211	2,085,604	1,758,399	773,299	-	19,607	8,133,120
Amounts due to other financial institutions	1,764,636	560,842	2,498,485	-	-	11,784	4,835,747
Other liabilities (2)	-	-	-	-	-	360,207	360,207
Shareholders' equity	-	-	-	-	-	13,827,515	13,827,515
Total liabilities and Shareholders' equity	5,260,847	2,646,446	4,256,884	773,299	-	14,219,113	27,156,589
Total interest rate sensitivity gap	15,865,026	160,487	(2,275,935)	(244,165)	15,766	(13,521,179)	-
Cumulative gap	15,865,026	16,025,513	13,749,578	13,505,413	13,521,179	-	-

(1) This includes impaired loans.
(2) This includes non-financial instruments.

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21. Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity to interest rate movements:

The following table shows the potential impact on profit or loss and equity in the event of shifts in interest rates.

The changes in interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

	2021	2020
JMD Interest rates	increase/decrease by 200bps	increase/decrease by 140 bps
USD Interest rates	increase/decrease by 400bps	increase/decrease by 400bps

	2021	2020
Effect on profit or loss	279,583	209,047
Effect on shareholders' equity	339,792	8,540

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

	2021					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Average
	%	%	%	%	%	%
ASSETS						
Cash resources	0.35	2.00	-	-	-	1.03
Loans, after allowance for impairment losses (1)	7.18	11.91	9.74	8.71	10.58	7.70
LIABILITIES						
Deposits by the public (2)	0.17	1.58	1.07	0.59	-	0.69
Amounts due to other financial institutions (2)	-	3.00	-	-	-	2.99

	2020					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Average
	%	%	%	%	%	%
ASSETS						
Cash resources	-	1.00	-	-	-	0.40
Loans, after allowance for impairment losses (1)	7.39	11.96	10.26	7.53	10.62	7.91
LIABILITIES						
Deposits by the public (2)	0.33	1.17	1.07	3.48	-	0.86
Amounts due to other financial institutions (2)	5.08	3.00	3.14	-	-	3.84

(1) Yields are based on book values, net of allowances for credit losses.

(2) Yields are based on contractual interest rates.

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21. Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk:

The Society takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The main currencies giving rise to this risk are the USD and GBP. The Society ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The table below summarises the exposure to foreign currency exchange risk:

	2021			
JMD Equivalent	JMD	USD	GBP	TOTAL
ASSETS				
Cash resources	3,700,462	9,002	2,143	3,711,607
Loans	20,230,249	-	-	20,230,249
Other assets	102,367	-	-	102,367
	24,033,078	9,002	2,143	24,044,223
LIABILITIES				
Deposits by the public	7,850,567	9,025	2,144	7,861,736
Amounts due to other financial institutions	993,153	-	-	993,153
Other liabilities	180,905	-	-	180,905
	9,024,625	9,025	2,144	9,035,794
NET POSITION	15,008,453	(23)	(1)	15,008,429

	2020			
JMD Equivalent	JMD	USD	GBP	TOTAL
ASSETS				
Cash resources	3,820,561	8,404	1,904	3,830,869
Loans	23,283,149	-	-	23,283,149
Other assets	42,571	-	-	42,571
	27,146,281	8,404	1,904	27,156,589
LIABILITIES				
Deposits by the public	8,122,786	8,429	1,905	8,133,120
Amounts due to other financial institutions	4,835,747	-	-	4,835,747
Other liabilities	360,207	-	-	360,207
	13,318,740	8,429	1,905	13,329,074
NET POSITION	13,827,541	(25)	(1)	13,827,515

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21. Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued):

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the following currencies at October 31 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis is performed on the same basis for 2020, analysing the market movements for exchange rates during the year. The strengthening of the JMD against the same currencies at 31 October would have had the equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

	2021	2020
USD	increase by/decrease by 6.00%	increase by/decrease by 8.25%
GBP	increase by/decrease by 8.25%	increase by/decrease by 2.95%

	2021	2020
Effect on profit or loss and shareholders' equity	(3)	(4)

The following significant exchange rates were applied during the period:

	Average rate		Reporting date spot rate	
	2021	2020	2021	2020
USD	149.60	140.29	154.67	145.10
GBP	180.99	180.79	211.41	188.09

There was no change to the Society's approach to measuring and managing market risks during the year.

(c) Liquidity risk

The Society is exposed to daily calls on its available cash resources from maturing deposits and loan disbursements. The Society 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 Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Board of Directors approves the Society's liquidity and funding management policies and establishes limits to control the risk. The Society assesses the adequacy of its liquidity position by analysing its current liquidity position, present and anticipated funding requirements, and alternative sources of funds. This process includes:

- Projecting day-to-day cash flows for each major currency;

- Managing the concentration and profile of debt maturities;

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Notes to the Financial Statements (Continued)
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21. Financial risk management (continued)

(c) Liquidity risk (continued)

- Monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption of cash flow;
- Monitoring liquidity ratios against internal and regulatory requirements; and
- Maintenance of liquidity and funding contingency plans.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Society. It is unusual for financial institutions 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 Society and its exposure to changes in interest rates and exchange rates.

Undiscounted cash flows payable for financial liabilities

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) to settle the Society's financial liabilities, based on contractual repayment obligations. The Society expects that many depositors will not request repayment on the earliest date the Society could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

	2021					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities						
Deposits by the public	5,997,865	912,121	777,687	777,687	8,465,360	7,861,736
Amounts due to other financial institutions	272,489	723,879	-	-	996,368	993,153
Other payables	53,036	-	-	-	53,036	53,036
Total financial liabilities	6,323,390	1,636,000	777,687	777,687	9,514,764	8,907,925

	2020					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities						
Deposits by the public	4,672,853	1,494,709	2,025,707	-	8,193,269	8,133,120
Amounts due to other financial institutions	1,273,906	2,020,052	625,638	1,770,694	5,690,290	4,835,747
Mortgage commitments	12,986	-	-	-	12,986	12,986
Other payables	41,875	-	-	-	41,875	41,875
Total financial liabilities	6,001,620	3,514,761	2,651,345	1,770,694	13,938,420	13,023,728

There was no change to the Society's approach to measuring and managing liquidity risk during the year.

22. Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets held and liabilities issued by the Society.

Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date.

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observation data and the observation inputs have a significant effect on the instrument valuation. This category includes instruments that are valued based on prices for similar instruments for which significant observation adjustments or assumptions are to reflect differences between the instruments.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;

(ii) The fair value of time deposits and savings deposits, with no specific maturity is assumed to be the amount payable on demand at the reporting date;

(iii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts, as they are frequently repriced to current market rates; and

(iv) The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. If the difference is significant, the fair value is computed by discounting future cash flows from the loans using the market interest rates at the year-end. 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 provision for credit losses from both book and fair values.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

22. Fair values of financial instruments (continued)

Accounting classifications and fair values:

The following tables present the fair value of financial instruments that are not carried at fair value based on the above-mentioned valuation methods and assumptions. The table excludes financial instruments not measured at fair value but for which carrying amounts are reasonable approximation of fair values.

	2021			
	Carrying amount			Fair value
	Loans and receivables	Other financial liabilities	Total	Level 3
Financial asset not measured at fair value:				
Loans, net of allowances for expected credit losses	20,230,249	-	20,230,249	20,532,667

	2020			
	Carrying amount			Fair value
	Loans and receivables	Other financial liabilities	Total	Level 3
Financial asset not measured at fair value:				
Loans, net of allowances for expected credit losses	23,283,149	-	23,283,149	23,523,250

23. Capital risk management

Capital risk is the risk that the Society 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 monitor the Society closely to ensure that it is satisfactorily managing its fiduciary responsibility to the depositors. At the same time, the regulators are also interested in ensuring that the Society maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

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

- To comply with the capital requirements established by the regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors and shareholders;
- To provide adequate returns to shareholders by pricing investment and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Society's operations.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

23. Capital risk management (continued)

The Society is regulated by the Bank of Jamaica, which sets and monitors capital adequacy requirements. Required capital adequacy information is filed with the regulators at least quarterly.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings.

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

The risk weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral and 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 and the ratios for the Society. During the year, the Society complied with the only externally imposed capital requirement to which it is subject, that is, that imposed by Bank of Jamaica.

	2021	2020
Tier 1 capital	5,250,000	5,250,000
Tier 2 capital	-	-
Total regulatory capital	5,250,000	5,250,000
Risk weighted assets		
Statement of financial position	10,912,647	12,440,982
Actual regulatory capital to risk weighted assets (%)	48.1	42.2
Regulatory requirement (%)	10	10

There was no change to the Society's approach to measuring and managing capital risk during the year.

24. Pension scheme

(a) The employees of the Society participate in The Bank of Nova Scotia Jamaica Limited's defined-benefit pension plan, the assets of which are held independently of the Bank's assets in a separate fund administered by Trustees.

The fund established under the plan is valued annually by independent actuaries using the Projected Unit Credit Method.

The Society contributes at a fixed rate of 2% of pensionable salary. Any funding deficiency of the plan is absorbed by the Bank. Accordingly, the Society is not entitled to any surplus that may arise.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

24. Pension scheme (continued)

(b) Benefits to members are based on the final pensionable salary (the average of the best three consecutive years' remuneration, with no salary cap), as follows:

(i) Per year of contributory service - 1¾% of final pensionable salary;

(ii) Per year of non-contributory service:

- 1½% of final pensionable salary for employees who started to contribute on November 1, 1971; and
- 1¼% of final pensionable salary for employees who started to contribute after November 1, 1971.

(iii) Maximum pension is the lesser of 70% of the average of final pensionable salary and ⅔ of salary at retirement.

(c) The employees contribute 3% of salary up to $250 per annum, plus 6% of salary thereafter.

25. Related party transactions and balances

The Society is controlled by The Bank of Nova Scotia Jamaica Limited, which is in turn a 100% subsidiary of Scotia Group Jamaica Limited.

Parties are considered to be related if one party has the ability to control or exercise significant influence over, or be controlled and significantly influenced by, the other party or both parties are subject to common control or significant influence. A number of banking transactions are entered into with related parties, in the normal course of business. These include loans, deposits and investment transactions.

Related party transactions with the parent company include management fees, interest income and interest expense. There are no related party transactions with the ultimate parent company.

No provisions 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:

	Parent company	Fellow subsidiaries	Directors and key management personnel	Total 2021	Total 2020
Loans					
Balance at October 31	-	-	93,563	93,563	176,559
Interest income earned	-	-	10,685	10,685	15,756
Deposits					
Balance at October 31	-	(993,153)	(13,935)	(1,007,088)	(3,114,472)
Interest expense on deposits	-	(87,743)	(53)	(87,796)	(83,038)
Securities purchased under resale agreements					
Interest earned	170	-	-	170	562

(Expressed in thousands of Jamaican dollars unless otherwise stated)

25. Related party transactions and balances (continued)

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

	Parent company	Fellow subsidiaries	Directors and key management personnel	Total 2021	Total 2020
Amounts due from parent					
Balance at October 31	(1,197)	-	-	(1,197)	3,743
Bank account with parent					
Balance at October 31	2,128,999	-	-	2,128,999	2,249,586
Interest income earned	14,205		-	14,205	19,316
Other					
Management fees and Other fees	(26,181)	(96,499)	(1,724)	(124,404)	(192,554)
Key management compensation:					
Salaries and other short-term benefits				(25,226)	(30,213)

26. Litigation and contingent liabilities

The Society is subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, it is probable that a payment will be made by the Society, and the amount can be reasonably estimated.

In respect of claims asserted against the Society which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Society which is immaterial to both financial position and results of operations.

27. 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 disruption 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 Society activated its Business Continuity Plan to minimise 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 minimise 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.

27. Impact of COVID-19 (continued)

Furthermore, at the Group level additional equipment, including computer hardware and software were acquired, to support the increased flexible working arrangements.

The Society 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 Society 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, 2021.

Management continues to review the effect of developments arising from the pandemic on the risks faced by the Society. Management believes the Society is in a sufficiently strong position to deal with any potential future economic downturn. The management team continues to be mindful that the prolonged duration of the pandemic and the attendant containment measures could have a material adverse effect on the Society, its customers, employees and suppliers and as such monitors these events on an ongoing basis.